USINESS THE MAJOR MARKET FACTOR

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

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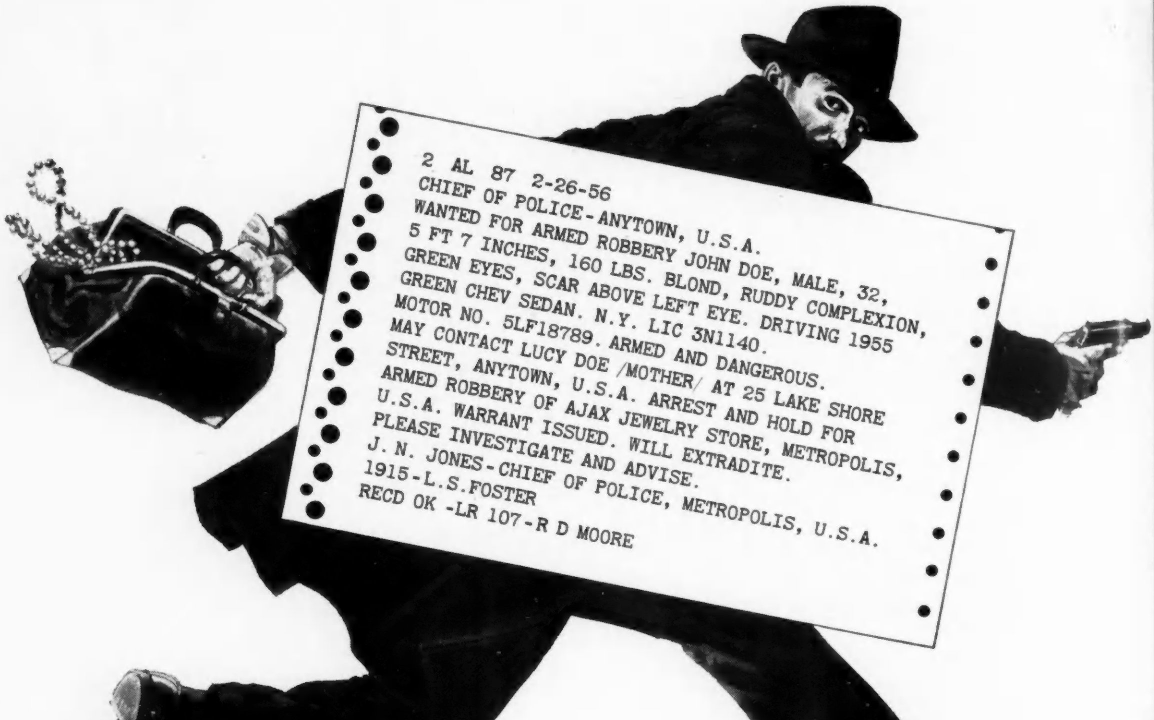


Bell System Teletypewriter Exchange Service Plays New Role in War Against Crime

Fast, low-cost, two-way communication plan, developed by Associated Police Communications Officers, adopted by law enforcement agencies in 30 states.

Teletypewriter Exchange Service (TWX) provides direct, two-way communication in writing over telephone lines. As a message or symbol is typed on the teletypewriter or punched on tape, it is simultaneously reproduced on any other machine to which the teletypewriter is connected – near or far.

Fast, dependable, direct communications are a vital part of law enforcement. Detection, capture and conviction frequently depend on the speed with which information is flashed from one place to another.

For some time Teletypewriter Service has been used by police authorities within a number of cities and states.

To extend its many benefits to law enforcement groups in the smaller cities and towns, the Associated Police Communications Officers devised and recommended a special TWX plan for handling interstate law enforcement messages.

It follows months of careful study and provides for the quick exchange of law enforcement information for both local and state police agencies. Thirty states have already put the plan in operation.

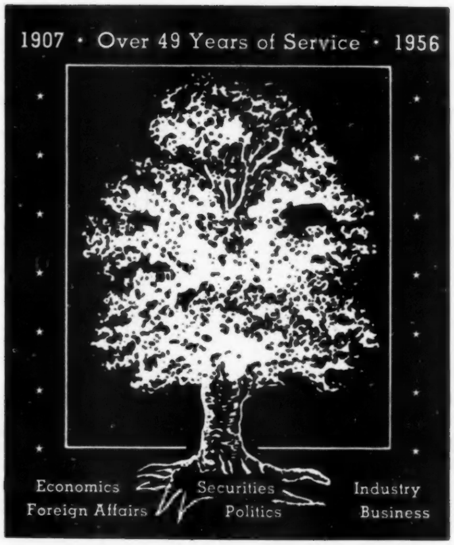
Bell System Teletypewriter Exchange Service is of growing value not only to police but to businesses of many kinds in many sections of the country.

Wherever there is growth and progress there is increasing need for fast, dependable, two-way communications. Teletypewriter Exchange Service, which now serves 38,000 customers, is just one of many helpful, time-saving services provided by Bell telephone companies.

BELL TELEPHONE SYSTEM

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

BUT IS IT A POLICY? . . . A vast assembly of critics, not a few of them well-meaning—diplomatic, press, political and individuals, at home and abroad—has been sharply critical of the goings-on in our State Department. A long series of incidents has led many to wonder whether the chaos wrought by the department's policy doesn't reflect hasty improvisation or a system of trial and error. At all events, we have been badly outmaneuvered by the Kremlin, whose Mr. Molotov makes few mistakes and no off-the-cuff decisions.

It is well to cite a handful of the unfortunate incidents that have made us appear as rank amateur in a game that Molotov & Co. plays with consummate skill:

Item: The State Department (Mr. Dulles was absent) rebuffed Red China's offer to consult on the Formosan situation. This stand was reversed when the Secretary of State returned and the talks went forward.

Item: Mr. Dulles joined with Portugal in characterizing the Goan enclave on the Indian subcontinent as a province of Portugal at a time when India was aroused over skirmishes between her nationals and the Portuguese. Our mission in that country sustained a major setback and our envoy returned to Washington to assess the cost of that blunder.

Item: The wishy-washy stand on balloons flying over Soviet territory, an issue on which the State Department first took a strong stand and then yielded.

Item: Tanks were slated for Saudi-Arabia, although we have refused to act on the months-long pleas of Israel for defensive arms. Shipment of the tanks for Arabia was called off and then shipped anyhow.

An entire volume would be needed to list other major miscalculations—such as the attempt to portray the visit of Germany's Chancellor Adenauer to Moscow as the product of our foreign policy creating a resurgent Germany talking to the Kremlin leaders from strength. Not even Mr. Dulles would deny, in the light of recent events, that the pro-Western orientation of Germany has left much to be desired.

Yet the haphazard conduct of our foreign policy goes on apace. We can't afford to improvise in coping with an enemy who has shown himself quick to adopt new concepts and new policies in a changing world. The new Kremlin masters are far more formidable foes than the unimaginative Stalin.

Hence, it is well that the Senate Foreign Relations Committee has called in Mr. Dulles and his aides to give the Congress an insight to the strange doings within his department. It is well, too, that attention should be focused on the Middle East, surely the most sensitive area of the world today. It would be interesting to learn, for one thing, how this Government could "buy" the "spirit of Geneva," as it was called, at a time when it knew that Moscow was fishing in the muddy waters of the Eastern Mediterranean. It also would be interesting to learn from Mr. Dulles, an old brink-of-war hand, how he proposes to keep the Middle East from going up in flames, a prospect that looms larger with each passing day.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

MODERATION: A DIRTY WORD . . . Former President Harry S. Truman has enjoyed an almost legendary fame as the possessor of a salty vocabulary, but the gentleman from Missouri looks with disdain on the word "moderation." Adlai E. Stevenson, who seeks renomination from the Democrats, has sought to pitch his campaign to a moderate key. Mr. Truman has seen to it that the moderate approach gets short shrift from Democratic pretenders. Messrs. Kefauver, Harriman and Williams never were devotees of moderation, in any case. But Mr. Stevenson, who enjoys a wide margin in the race for the nomination, appears to have succumbed in swift order to the Truman counsel to get in there and slug. Mr. Truman is sure to have a considerable voice in the selection of a Democratic nominee and, his health permitting, is certain to take to the husting. In the months ahead we are likely to see some hard-hitting campaign oratory. Indeed, there already has been a marked change in the tenor of Mr. Stevenson's speeches. It may very well be, of course, that the country, as Mr. Stevenson said some months ago, is in a mood for moderation, in which event the Truman strategy and level of campaigning will scarcely be an asset to the Democrats.

SOVIET FOREIGN TRADE . . . The tendency in this country to underestimate the Soviet Union is nowhere so strong as in the channels of trade. Too many Americans find it hard to believe that Russia, with her low standard of life, can offer a substantial market for foreign lands or, with her enormous domestic needs, offer large quantities of goods for sale abroad. They find support for their contention in recent trade agreements. They can cite the fact that two years ago the Soviets entered into agreement with Lebanon to exchange about $5 million per year in goods. The record shows that their total exports to that little Levantine land were little more than 1% of the whole sum. Along about the same time, Moscow made an agreement with Uruguay to exchange $20 million worth of goods. That smallest of South American countries was able to buy only $28,000 in Russian goods.

It is a mistake, however, to suppose that the Russians are not making progress in their struggle to capture world markets as part of their campaign to weaken the Free World. An important factor in their favor is the considerable hoard of gold, which they can use to pay for vital goods. A measure of this stockpile of gold may be gleaned from the fact that Moscow was able to ship on the order of 4 million ounces to the West during the last half of 1955. At a price of about $35 an ounce, that adds up to $140 million. The ability of the Russians to pay for merchandise in gold, wherever that is necessary, could make her a large-size factor in the sterling bloc. Indeed, thanks to Russia, world gold markets have come alive in recent months.

The Kremlin, in the field of foreign trade, can be counted on to use all weapons—gold, propaganda, obsolete arms and all the rest—if any, or all of these, are calculated to further their goal of global paramountcy.

THE NEW GERMAN SPLIT . . . To the futile attempts to unify Germany, in the face of Soviet obduracy, now can be added a split that could have equally serious implications. That well may be the meaning of the defeat sustained by Chancellor Adenauer's Christian Democrats in the elections to the State Government of North Rhine-Westphalia. The new provincial government chief is a Socialist, who boasts that like action will follow in other states, to be climaxed by a challenge to the Bonn regime.

Thus, the long-time national self-discipline which lifted a truncated Germany out of the postwar chaos to the front ranks of nations now is being threatened by a rising revolt against the Western-oriented Adenauer government. And, make no mistake about it, Mr. Adenauer and the men around him have played a major role in restoring the economic might of Germany. What makes this defeat of the Adenauer forces so hard to take is that their rivals had made it clear they were aiming at the Chancellor's "authoritarian rule" in Bonn.

For the United States, the vote represented a sizable setback to our calculations that envisaged continuance of a firm alliance. The result may seriously influence the future internal and external political orientation of West Germany. It may well entail additional delays in German rearmament program, renewed agitation for conferences with the Soviet Union looking toward a deal for geographic reunification and, finally, a disintegration of Christian Democratic power in national affairs.

Lest the impression be gained that this was an obscure provincial election, it must be emphasized that North Rhine-Westphalia is Germany's richest and most populous state, containing the Ruhr.

POLITICALLY-GUIDED MISSILES . . . Politicians have been firing deadly weapons at each other since the beginning of recorded time and if innocent bystanders were caught in the crossfire—well, that was part of the game. In our own country and our own time, we have seen such tragedies enacted.

At the moment, the political combatants are toying with the deadliest weapon—the guided missile. There are factions that insist (although how they know is a mystery even to President Eisenhower) the enemy has outdistanced us in the vital race to produce missiles that could be decisive in an all-out war. They insist that, instead of a five-day 40-hour week in plants that produce these weapons, output should be on a seven-day basis.

Of course, there also are groups that contend that the guided missiles in our arsenal are superior to anything the Soviets have, although here too there is much reason to doubt their intelligence.

Thus, the American people must be filled with doubts and misgivings as they listen to opposing points of view. The layman knows little, or nothing, about guided missiles. Indeed, even among the men in high places there is no unanimous agreement on the weight to be given these weapons in our military calculations. Nor will the air be cleared by political wrangling in which disputants hope to gain some small partisan advantage. For good or ill, our fate will be decided by the men in high places, military and civilian, who must make the ultimate choice in disposing our defenses. Criticism, of course, must not be stifled and can, indeed, be helpful when it stems from well-founded knowledge and a healthy desire to cite the mortal peril.

As I See It!

By CHARLES BENEDICT

AND NOW — THAT NEW ELITE LEADERSHIP FOR RUSSIA

Of all the surprise pronouncements to come out of the 20th Russian Congress, the rejection of Stalin as the symbol of one-man rule comes first. Next is the suggestion for a program that would create a new Soviet Elite, trained from childhood like the corps of pages and cadets of bygone aristocratic days, and designed to build a new knighthood—"a society of people with great hearts and high ideals," as Nikita Khrushchev, the party leader, put it.

Coming at a time when the world is longing for moral and high-minded leadership in a most crucial period in history, this posture of idealism is a stroke of genius in propaganda. Moreover, launched just before Khrushchev and Soviet Premier Bulganin are going to be in Britain, it looks very much as though the Russians are trying to associate themselves with the glorious knighthood of old England, to smooth the way for acceptance of the propositions they are sure to make.

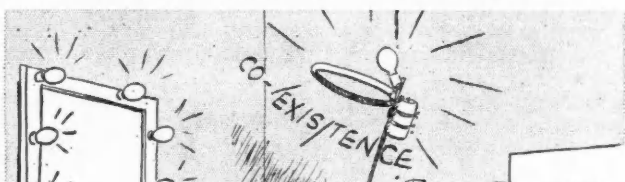
When dealing with the Russians one never knows what is actually back of their words, for no government in modern history has been more adept in duplicity, as evidenced by the success they have achieved in the face of established facts that belie their words.

In the early days after the Bolshevik revolution, when they sought to gain sympathy for their cause, the cinemas all over Europe ran pictures telling of the degradation of the Russian people under the worst of autocratic rulers, Ivan the Terrible. But when Stalin became dictator, they presented Ivan the Terrible as a great leader whose cruelties should be condoned or even justified, for he had been seeking to build a great nation at an early period in Russian history.

The Communist hierarchy has never hesitated to use any expedient that suited its purpose—lies, empty promises, even murder. There have been so many switches in propaganda that party-line exponents in the various countries have been continually harassed and confused, just as they are today by the dethroning of the Great God Stalin and the belated recognition of old Bolshevik leaders, long discredited.

Thus, it is well to remember that while the Russian leaders may wish to perpetuate their power through their children—they are unlikely to build a new knighthood—that society of people with "great hearts and great ideals" of which Khrushchev speaks.

CHANGING COSTUMES FOR THE NEXT ACT



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At no time has it been more important to think in terms of our experience with the realities of Russian aims, if we are to avoid being lulled to sleep by the sweet music that speaks of a bright new world — "peaceful coexistence" — and the promise of idealism in Russian leadership.

There is so much sophistry mixed with Russian logic that it is only good common sense to be wary and to look behind the facade of Russian words.

With world affairs at a very critical stage —without doubt it is necessary for Russia to bolster her position behind the Iron Curtain. Her latest departure from reality was clearly designed to give wings to the wild hope in the hearts of these captive people that a great liberalization in line with their nationalistic aims and goals could be realized. By this means the Kremlin plans to win them to her cause—and neutralize Europe too, in her great struggle with the United States.

It furthers also Soviet ambitions of world conquest and will be used as part of the campaign of political and economic subversion of the people of Africa, the Middle and Far East in order to ease the way for peaceful penetra- (*Please turn to page* 722)

Business Still the Major Market Factor

Whatever the President's decision, we expect that investors will revert fairly quickly to normal preoccupation with prospects for business, earnings and dividends. They are not dynamic at this stage and the market is in high ground. Continue to emphasize realistic appraisal of individual stocks and to hold reasonably conservative reserves.

By A. T. MILLER

The long guessing game on the President's second-term intentions will have ended before, or shortly after, this issue of the Magazine reaches you, if the announcement comes "around March 1" in line with what has been a tentatively indicated schedule, rather than a specific commitment. Over the last fortnight, hopes that he would seek re-election rose sharply; and many more people evidently joined the ranks of those who have recently regarded Ike's candidacy as probable, if not virtually certain. In reflection of this, the stock market staged a fairly boisterous advance celebration which took the Dow industrial average back within close vicinity of the triple tops recorded last September, November and December.

If the announcement is that the President plans to run again—or that he will consider it his duty to accept a draft by the nominating convention, his health permitting at the time—the surprise element will have been largely eliminated; andthe favorable news will already have been largely discounted by the market. If the decision is negative, it figures to surprise and disappoint many investors; and to unsettle the market, probably resulting in a test at least of the January lows, perhaps a test of last October's lows, which were reached when hope for an Eisenhower second term was at lowest ebb.

Emphatic Market Response?

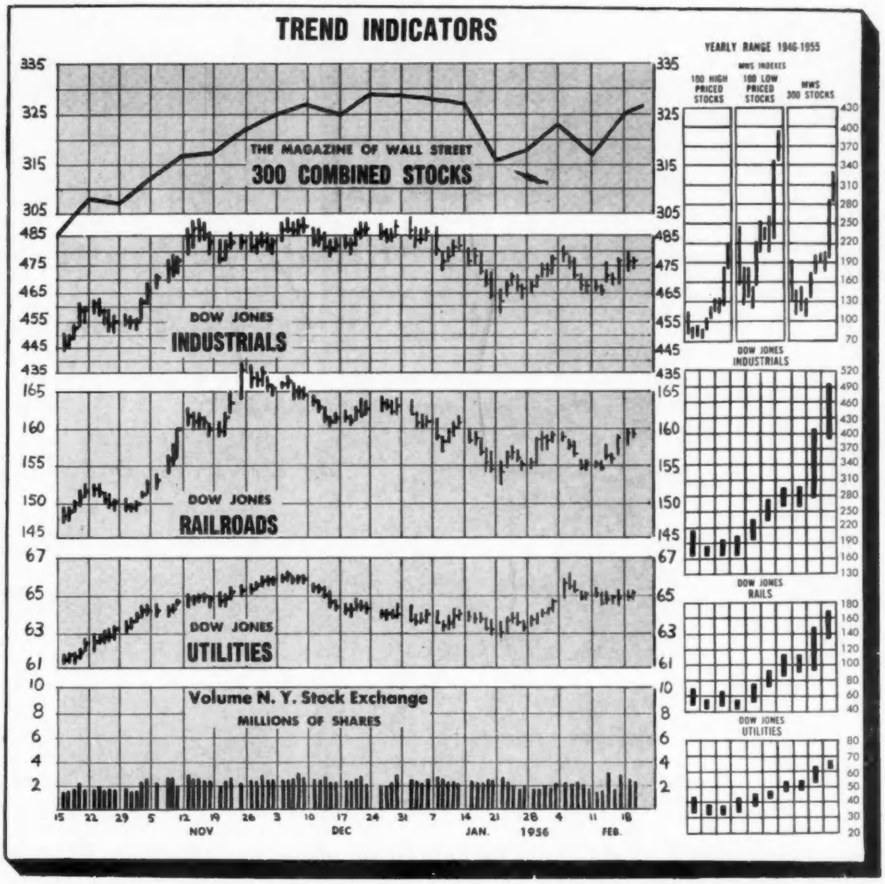
Given an affirmative decision, there is a question as to how emphatically and for how long the market might be stimulated. "Eisenhower confidence" is undeniably a potent factor; but no one can figure with any degree of precision what it is, or should be, worth in terms of points. The fact that so many people have been advised that good Eisenhower news would give the bull market a new lease on life makes some reservations in order.

When the market was approaching the present level last September, prior to news of the President's heart attack, we had "Eisenhower confidence" in full measure—but we also had just ahead a strong further gain in fourth-quarter earnings; a foreseeable sharp rise in fourth-quarter dividends, in view of the lag of payments behind earnings and the generally low pay-out ratio in prior 1955 quarters; a continuing uptrend in business activity, even though at a slowing rate as compared with prior months; and more confidence in the economy's "forward look" than can now be justified for 1956. Any one, of course, can paint glowing pictures for 1960, 1965, 1975 or other distant year, on the basis of population growth, technilogical progress, etc.

This is nothing new. You have no doubt noticed that we her most talk about it when the market is "way up yonder". Looking "X" years ahead, bullish forecasts were equally valid in the autumn of 1953, when the industrial average was about 230 points under its

present level; or in the summer of 1949, with the average some 322 points below its present exalted position. Long-range potentials do not have too much to do with interim market movement.

Focusing on 1956, few optimists go further than predicting "moderate" or "modest" gain in industrial production as compared with the average for 1955, when the trend was upward. Even so, output this year could average somewhat under the peak level (144 on the Reserve Board index) held for three consecutive months through January. Much depends on (1) whether third - quarter easing proves to be more than seasonal, and (2) on the vitality of the expected fourth-quarter rebound.



Steel activity has eased slightly. It will dip considerably for a time after midyear, since much buying has been for inventory as a hedge against a price boost or strike, or both. Automobile output has dipped further, but remains moderately in excess of indicated retail demand. There have been some indications pointing to at least a leveling-out of the shrinkage in housing starts. Depending on psychological viewpoint, you can term retail trade "fairly good" or "somewhat sluggish". Consumers are not exactly rushing to spend income or buy more "on the cuff". Their general savings rate has risen in recent months.

Full-year earnings and dividends should compare satisfactorily with 1955's, but that is somewhat beside the point. Can present levels of either be bettered materially, if at all, over the presently foreseeable future? The leveling-out of production, coupled with recent and coming wage boosts, implies that mere profit maintenance will hinge to a considerable extent on price boosts. The latter can certainly be effected in the capital-goods industries —witness the recent further 3-cent boost in the price of copper launched by Anaconda under spur of the Government of Chile, which needs copper-tax money. There will probably be more resistance than heretofore to price-kiting at the retail distribution level.

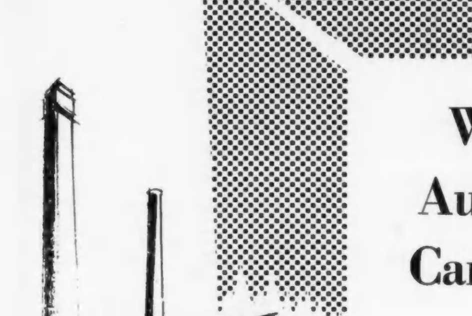
Basic Financial Factors

Close to 4.5%, based on 12-months dividends, yield on the Dow industrial average is higher than it was last September at about the same market level as now. But the historical average has been around 5%. Paring of yield much below that level puts the market in the area of over-valuation—a broad area marked by some past extremes of yield down to 3.5% or less. The present spread of stock yield over bond yield is materially narrower than the historical average. New-money common stock financing in 1955 was the heaviest since 1929. It will be a continuing drag on the market as long as stock prices remain at advanced levels. In contrast, preferred-stock financing is relatively light, explaining the notable stability in prices of good preferred stocks; and giving them attraction at present for conservative investment purposes.

The Federal Reserve has been "treading water" in monetary policy, possibly awaiting the President's decision and observation of its effects. The Board seeks to "lean against the wind" but is unable to detect much wind either way right now. That will not go on indefinitely; and possibility of some policy shift will now bear close watching. The London market rallied recently, following an extended slump due to anti-inflation monetary policies much harsher than have been in order here. Its movement, especially under the reverse of depressed economic conditions in the Sterling area, can have no great significance for us.

Supply Level Formidable

Between September, 1955, and mid-January of this year, a huge total of shares changed hands in the area 480-489, *(Please turn to page 723)*



What A 10% Decline In Automobiles And Housing Can Mean To 1956 Overall Business Activity

By EDWIN A. BARNES

In 1955, the American economy enjoyed simultaneous booms in two of its most vital components—residential building and automobiles. In fact, it might be said that the exuberant behavior of these two markets was the instigating and sustaining force behind the swelling tide of business activity of the past eighteen months. While rapid expansion of personal debt is frequently singled out as the mainspring of the 1955 boom, it is worth noting that it was in housing and autos that virtually all of the increase in debt occurred. Of the $6 billion increase in outstanding short and intermediate term debt of individuals in 1955, about $4 billion represented the expansion of debt on automobiles. Debt on residential properties expanded about $16 billion, by far the largest jump on record.

Stimulated by the willingness of consumers to incur debt, and the ingenuity of lenders in making the terms palatable, gross national outlays on automobiles and housing in 1955 rose to an historic peak of $35 billion—about 9% of all goods and services produced during the year.

The enormous role of autos and housing in the 1955 expansion, and the obvious dependence of these markets on an excessive growth in personal debt, have raised some insistent and fundamental questions about the outlook for 1956. What happens if, as seems quite possible, consumers retrench in 1956, to give their incomes an opportunity to catch up their long-term and short-term repayment obligations? What would be the effects of such a slowdown? Would the effects be spread quickly from autos and housing back to steel, and lumber, and lead, and copper, and the host of other vital industries which supply raw materials to the auto assemblers and the construction industry?

In early 1956, these questions are certainly pertinent. It is no secret that in the automobile industry, to take the more obvious case first, something in the nature of a serious reduction of activity is already in progress. Late in 1955, the scheduled output rate of the auto assemblers for the first quarter of 1956 was 2.4 million passenger cars. By early January, the rate schedule had fallen to 2.0 million. In February, first-quarter totals were cut to 1.8 million, and at this writing the industry's total first quarter performance shapes up at about 1.7 million. Underlying these cutbacks is the highest level of automotive dealers' stocks on record—rough estimates put these stocks close to 825,000, approximately double the levels of a year ago. While retail volume has been good (in fact, excellent by all standards except 1955) this tremendous overhang of unsold models may foreshadow still further reductions in the production rate in the second quarter, and a prolonged "model-changeover" closedown during the third quarter.

In housing, the current situation is much less clear, mainly because of the absence of data on "stocks" of unsold houses to parallel the stocks data available for automobiles. But the picture of home-building activity reflected in the rate of housing starts is clear enough: the seasonally adjusted level of new starts declined steadily, although moderately, throughout 1955, after having reached a peak rate of 1.5 million (on an annual basis) at the beginning of the year. It is now below 1.2 million.

Housing analysts also attribute considerable significance to a sharp decline in the number of housing units involved in FHA mortgage applications, and in VA appraisal requests; by year-end, the former series, which reflects builders' plans for the future, had fallen to half its rate of March 1955, and the latter series, which reflects veterans' plans for home-buying, had fallen about 60%

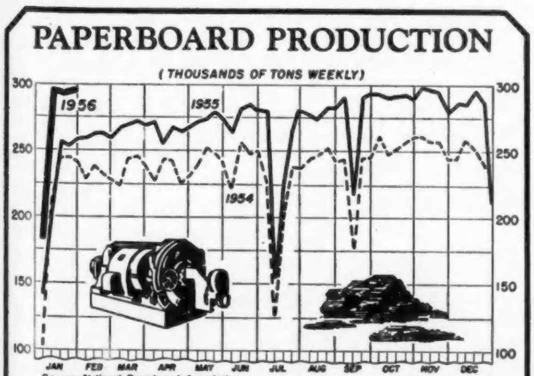
In each of these markets there is, of course, good news as well as bad. The used car market, for example, has had a marked resurgence in the past two

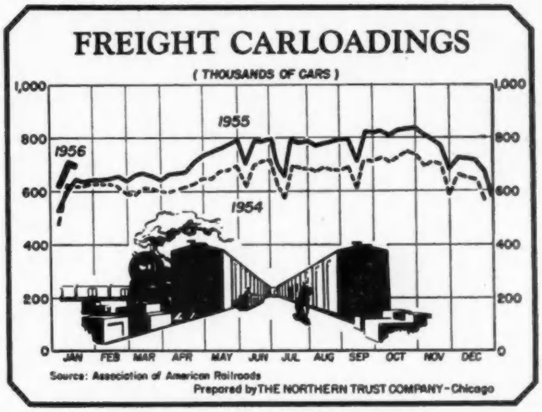
months, and used car sales have in the past been a reliable harbinger of trends in new-car sales. Similarly, the volume of new mortgage recordings, which is a fairly good clue to the rate of home purchase (as opposed to home construction) has continued in a high range. Moreover, loosening of selective credit controls over the housing market has already progressed far toward a full return to the easy conditions that prevailed in early 1954, and further easing is quite likely in an election year. Perhaps as a response to the easing that has already occurred, the volume of contract awards in residential building has already given evidence of some revival, and it may be that in terms of trend the housing market has already seen its low point.

Nevertheless, and weighing the good news with the bad, it seems altogether probable that total automobile production in 1956 will fall roughly 20% below the level of 1955 (which would imply a production figure below 6.5 million assemblies) and that housing starts will fall about 10% below 1955, which would imply a level of roughly 1.1 million units. What will this do to general business conditions?

The answer—and a slightly surprising answer—seems to be that it will do very little to general business conditions *in the first half of the year*. The reason for this is a little complicated, but clear enough. In late 1955, the automobile industry was building inventory at a tremendous rate, but it was having to buy its inventory away from other prospective purchasers. The capital goods industries, the transportation equipment industries (other than autos), the defense industries, and even the United States defense stockpile, were all avidly seeking steel, copper, aluminum, and, to a lesser extent, lead, rubber, zinc. The almost insatiable demands of the auto industry left these other bidders with much less of these materials than they wanted or needed. As a result, inventories of key materials in these other industries are still relatively low, and in some capital goods industries actual production delays have been common because of materials shortages. For the present, the decline in automotive demand for these materials has come as a blessing to other hard-goods producers, who are still willing and anxious to enlarge and balance their reserves of raw goods and semi-finished components.

The net result of the decline in automotive assemblies, again for the first half of the year, is thus to end inventory accumulation in the form of finished passenger cars, and to permit a faster rate of accumulation in the warehouses of freight-car builders,





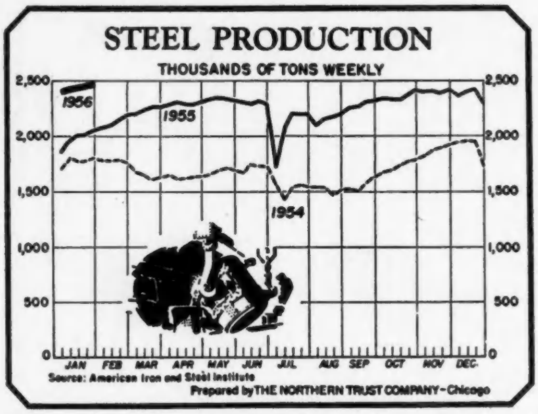
machine-tool builders, builders of general machinery, builders of defense goods.

This is the explanation of the fact that steel production is now running ahead of a year ago, even though automobile production, which normally takes almost 20% of steel production, is 15% behind a year ago. It is also the explanation for the extremely tight supply situation in the major non-ferrous metals—copper, aluminum, lead, zinc. Strong demand for these materials in non-automotive uses has been acting as a sponge, sopping up the productive capacity freed by the decline in passenger car production.

In residential construction, a similar, but somewhat less effective, process has been at work. While residential construction has been subsiding, activity in many other important construction lines has been advancing. The national demand for schools and roads has kept these essentially governmental areas of construction in a continuous uptrend. And the broad expansion of industrial and commercial building activity—factories, office buildings, warehouses, shopping developments, etc.—has also helped maintain healthy conditions in the building industry as a whole. In late 1955, non-residential private building was running fully 15% ahead of the level a year earlier, and total dollar volume of all construction, incuding public and private residential and non-residential, was actually higher than in late 1954, when the housing boom was at its imposing peak. And in the early months of the new year, total construction contract awards, after seasonal adjustment, were running at near-record levels. With all of the concern over the downtrend in housing starts, total construction still appears to be in a boom.

As a result, the sopping-up process so evident in the raw materials used by the automotive industry has also been at work, in some degree, in the construction industry. In cement, in structural steel, in coper fabricated specialties, in plumbing supplies, in aluminum and stainless steel fabricated specialties, the decline of housing has been more than fully offset by the continued rise in those larger-scale projects which make heavy use of these materials. Only in lumber, small electrical specialties and synthetic flooring, where residential building is a dominant part of the market, has the decline in housing starts altered the character of the market.

For the first half of the year, accordingly, the clear strengths in other demands—the inventory demands of non-automotive producers of hard goods, and the raw materials demands of the nonresidential



STEEL PRODUCTION

Source: American Iron and Steel Institute
Prepared by THE NORTHERN TRUST COMPANY-Chicago

building industry—are continuously offsetting the ponderous declines in passenger cars and homes. How long can this progressive counter-balancing continue?

In the second half, it now seems probable that the strengths offsetting the decline in auto demand are likely to lose their importance, and perhaps disappear altogether. As in automobiles, inventory demand in capital goods industries cannot continue forever, and when it declines it will doubtless be paralleled by a decline in the rate of steel production. Even in copper and aluminum the market is likely to soften, although not nearly as conspicuously as in steel; and rubber may be noticeably easier. Lead, too, which finds an important use in the automobile batteries of new cars, will be easier to get. (Zinc, on the other hand, could well be even harder to get: tooling up for the new 1957 automobile models will still be taking a tremendous volume of zinc for dies.)

In construction, on the other hand, the aggregate situation at year-end may be just as favorable as it is now, and perhaps more favorable. Non-residential building will in all probability continue to advance, although the factory component may be subsiding and the public works components—schools, roads, institutional building—may be rising. And it now seems at least a reasonable bet that the prompt and vigorous reversal of selective and credit controls that govern the availability of long-term mortgage funds will provide a favorable atmosphere for the recovery of housing starts to at least a 1.2 million level, and perhaps higher. It is therefore a reasonable possibility that by late in the year construction as a whole will be a strength in the business outlook, rather than a weakness.

If this situation develops, then the huge construction industry will be in a position to help the economy resist the debilitating effects of declining automobile output, and it is possible that insofar as these two markets are concerned the net loss of activity will be quite small—in terms of gross national product, perhaps no more than $3 or $4 billion.

The effcts of a serious curtailment of auto production and new residential building in 1956 will also be offset, to some degree, by a rising volume of repair and maintenance work in construction, and by a rising volume of replacement demand in the automotive parts field. Repair and maintenance construction is now a very substantial market: rough estimates place the total above $10 billion a year, and it is expected to rise in 1956. And automotive replacement demand—for tires, batteries, spare parts—is also expected to rise in the light of the sharp 1955 increase in the number of cars on the road.

The outlook for 1956, while it is certainly not as bright as 1955, is thus not overwhelmingly affected by the auto and housing picture. (Of course, if other developments should weaken the general structure of business conditions in 1956, the weakness of automobiles and housing could compound difficulties into a more serious downtrend.) And it might be added that with the exception of automobile assemblers themselves, the impact on individual industries, and individual companies within industries, is not likely to be very severe. Even among rubber companies, whose output is so closely tied to the original-equipment demands of the auto industry, wide diversification has taken place in recent years—into plastics, finished consumer goods, chemicals, textiles. In all of these lines, sales are expected to be somewhat higher in 1956 than in 1955, and so too should be replacement tire sales. Automotive parts producers themselves have been diversifying out of any critical dependence upon new automobile production, and mergers have strengthened their resistance to a decline in automotive volume.

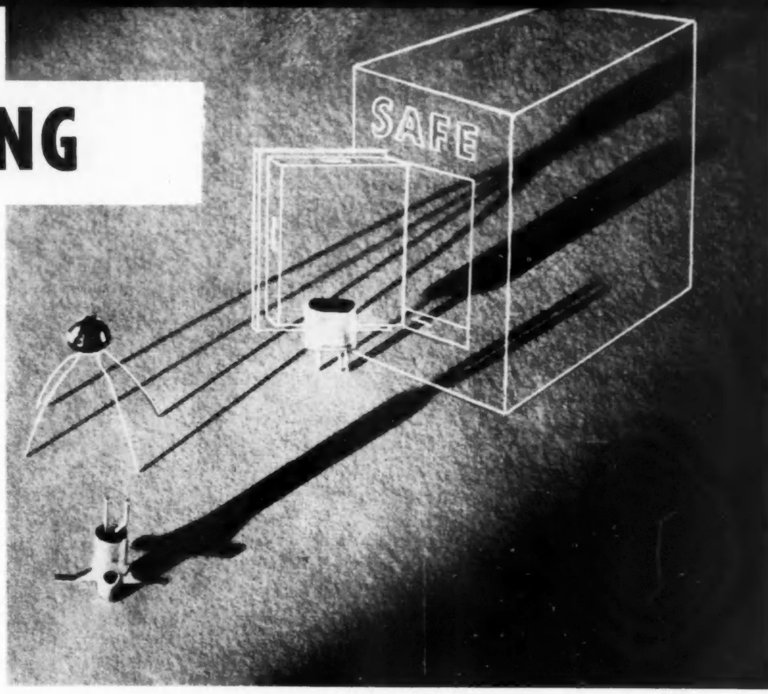
Borg-Warner Corp. presents a striking illustration of how, by pursuing an aggressive course of diversification and expansion through acquisition of other companies, it has lessened its dependence on the automotive industry. Although it continues to be the largest independent manufacturer of clutches, automatic and standard transmission, universal joints, overdrives, as well as other products used by automobile and truck builders, B-W is a producer of a diversified line of durable goods. These include a broad line of household appliances manufactured by its Norge Division; a wide variety of products for aircraft, utility, agriculture, construction, petroleum, and other industries. Through its acquisition of the Byron Jackson Co., in 1955, which was brought into the Borg-Warner organization as the Byron Jackson Division, the parent company expanded its product line to include electronic instruments.

Borg-Warner's achievements in diversification is even more strikingly illustrated by the company's postwar expansion in net sales which on the basis of preliminary figures for 1955, including sales of Byron Jackson, set a new record high at $550 million, of which sales to the automotive industry accounted for an estimated $250 million with the estimated balance of $300 million representing the company's other product lines. It is estimated that net income for 1955 also set a new (*Please turn to page* 720)

AUTOMOBILE PRODUCTION

Source: Ward's Automotive Reports
Prepared by THE NORTHERN TRUST COMPANY-Chicago

FAR-REACHING EFFECT OF PATENT DECREES



By H. F. TRAVIS

The ancient adage that holds "You can't get something for nothing" is being disproved this year. Indeed, the consent decrees obtained by the Government from such companies as American Telephone & Telegraph Co. and International Business Machines Corp. (with many more in the works) promise to throw open to the business community at large tens of thousands of patents whose total value may well run into billions of dollars.

While it is true that the recent consent decrees apply only to two companies, they happen to be research leaders of the first rank. In addition, the decrees won by the Justice Department set precedents that could have an impact on the entire patent system of this country. While it is still too early to assess all of the implications of the Telephone and IBM decrees, it must be clear that other owners of important patents presently will have to share their own brainchildren with competitors.

The laboratory rearing of a brainchild is a costly item. Telephone, as an example, lavishes about $100 million each year on Bell Laboratories, its research division. Out of Bell Labs have come such modern marvels as the transistor, the solar battery, the coaxial cable that makes possible network television and Nike, the most famous of the guided missiles in our arsenal. Some 6,000 patented Bell Labs ideas and another 2,200 from other Telephone subsidiaries, notably Western Electric, have earned the parent company millions of dollars per year in licensing fees. These are the patents that Telephone has consented to hand over free of charge to any American company that wants to use them. Moreover, Telephone also must offer future brainchildren to any company willing to pay a "reasonable royalty."

The IBM Plight

While the decree in the Telephone case encompasses many products and processes that have hitherto been corporate secrets, the IBM settlement borders on the Draconian. Through the years, the office tabulating machinery business has been dominated by IBM, a name that has come to symbolize the punch-card equipment used to record and calculate business data. An example of its mastery in this field was provided a few years ago when competitor Underwood Corp. had to take on a line of British punch cards in order to become a factor in this field.

The Justice Department decree in the IBM case this year went much further than punch cards, however. The agreement set up a five-year period during which the company's dominant market position will be far more vulnerable to competition. Chief result of the four-year-old wrangle between the Government and IBM is to force the company to stop insisting on leasing its equipment, rather than selling it outright to any purchaser who wants to buy. Within a year, IBM must set prices on its products and offer them for sale. Current lessees are to be offered 10-year amortization terms.

The company also must help develop a second-hand market in tabulating and computing machinery by issuing price lists on all used equipment it takes in. It no longer can require a purchaser of IBM machines to take IBM service or buy IBM parts or punch cards. The company must set up its Service Bureau Corp., which operates more than 100 centers that do computing work on a fee basis, as a separate subsidiary. Moreover, the company must train outsiders in the techniques of making and using tabulating equipment, and must provide the trade with literature and basic designs. It must sell its punch-card presses, the outgrowth of the Hollerith system it pioneered in the last century, at the rate of 30 per year and divest itself of enough of this business to get down to 50% of the country's card-making capacity within seven years. IBM also must make all patents available, at reasonable royalties on a cross-licensing basis, to any company. And, finally, this kingpin of the office-equipment industry can't stop anyone from altering IBM machines or adding attachments to these devices.

Competition in Punch Cards

The case of the antitrust division of the Justice Department against IBM was begun four years ago. About that time, Underwood acquired the punch-card accounting-machine line of Powers-Samas Accounting Machines, Ltd. of London for distribution and service in the United States, Canada and certain other countries of the Western Hemisphere. The biggest single immediate effect of the 1956 consent decree will be to open up the manufacture of punch cards to all competition. IBM is believed to control on the order of 90% of this business. Of all the stipulations of the 1956 decree, the one opening up the punch-card presses to all competitors in this country probably was the hardest for IBM to swallow.

Nearly every manufacturer of office machinery is beginning to market machines that use these cards. Obviously, the decree will provide enormous impetus to the efforts of other companies to get established in this field. Burroughs Corp., as an example, is just beginning to market its Series G high-speed printer, first of its machines to use cards. The machine was designed so that it can be used in conjunction with IBM equipment. Another spur to competition will derive from the fact that engineers now can broaden the function of a company's machines without worrying whether they overlap with IBM devices.

The "Giant Brains" Field

The decree comes at a time when IBM already was facing severe competition in a vital field—electronic data processing. General Electric Co. has announced in recent weeks that it is entering the electronic computer field with a full line of products. Radio Corp. of America is making and marketing a computer. Underwood and other traditional rivals of IBM got into the field a few years ago.

Most serious challenger to IBM, of course, is Sperry Rand Corp., formed in 1955 by the merger of Sperry Corp. with Remington Rand, Inc. Shortly before the close of 1955, Sperry Rand filed a $90 million damage suit in Federal Court against IBM. Like the Government, Sperry Rand charged IBM with restraint of trade and monopoly under antitrust laws. The Sperry Rand complaint stated that IBM controlled more than 90% of the tabulating machine business and received annual rentals "in excess of $200 million" for the use of these machines. This complaint concerned tabulating machines. However, the consent decree between IBM and the Government applies to tabulating machines and electronic computers.

In its complaint, Sperry Rand listed 28 specific counts against the defendant. The complaint charged that IBM "tampered or interfered with the efficient normal operating of tabulating machines manufactured by the plaintiff." Other charges were that IBM made misrepresentations about Sperry Rand machines, offered free or cut-rate use of its tabulators to prospective customers of Sperry Rand and "pre-empted the services" of certain inventors. For these and other allegedly unfair trade practices, Sperry Rand seeks triple damages in the amount of $90 million. The company also has announced that it will go ahead with the damage suit despite the

Companies That Have Derived Major Benefits From Patents

American Viscose	Stress on research and development has resulted in the registering of hundreds of patents in such varied fields as fibrous rubber, cellulose fibers and spray-formed plastic fibers.
Dow Chemical	This higly diversified chemical producer has extensive patents in such fields as biochemistry, plastics and the recovery of metals from their ores.
du Pont	The tremendous range of patents held by du Pont, especially in the synthetics field, has made it the No. 1 chemical company. About 95% of its products (in sales value) are sold to other manufacturers for further processing.
Eastman Kodak	While known to the public, generally, as a producer of cameras and allied equipment, the company holds vital patents in the photographic and synthetic-yarn industries. In 1954, a court decree was entered (with company consent), requiring the company, among other things, to cease selling amateur color films with the charge for processing included in the price and to furnish licenses under its color film processing patents and certain information and assistance.
Hazeltine Corp.	This company owns thousands of patents which are the almost exclusive source of its earnings. The unique nature of its business results in considerable litigation involving companies which may have infringed on Hazeltine patents, largely applicable to the electronics industry.
International Tel. & Tel.	Company and its subsidiaries have in force throughout the world some 19,000 patents and 1,400 trade marks and designs. Patent licenses and agreements, notably in the field of radio and television, provide substantial royalty income.
Pitney-Bowes	Holder of important patents dominates postage-meter field. Government requires company to lease, rather than sell, product. Tops in engineering and has evolved wide variety of products for commercial and military use.
Radio Corp. of America	This leading holder of vital patents, in the electronics and other industries, has been charged by the Government with monopolizing interstate trade and commerce in radio-TV research, patent-holding and patent acquisition. RCA has denied violation of antitrust laws, contending it does not acquire for itself, nor does it grant to others, exclusive patent licenses. RCA argues that its "liberal licensing policies" have contributed importantly to development of radio-TV industry.

consent decree in the Federal action against IBM.

$16 Million A Year for Research

While no company can afford to be as lavish with its research programs as Telephone, which spends on the order of $100 million a year at Bell Labs alone, IBM is no less aggressive in its stress on research and development activities. In 1955, IBM spent well over $16 million for this purpose, compared with $14 million in 1954. The question naturally arises whether our corporate giants will continue to venture tremendous sums on laboratory bets (thousands of which never pay off) if the end result entails sharing their hard-won discoveries with less imaginative and daring competitors. A better appreciation of the enormity of the IBM expenditure may be gleaned from the fact that net profit for 1955, totaling $55,873,000, was only 3.5 times the outlay for research and development.

Research and development must pay off over the long run, else a company must curtail or abandon such activities, however vital to the corporation. Indeed, they are of first-rate importance to the economy and the national defense. New products, new processes and new ideas have created whole new industries and made a major contribution to our living standards. From corporate laboratories have come the weapons and tools that won World War II and now keep the Communist conspiracy from inundating the defenses of the Free World.

Let us scan the products that came out of the $16 million-a-year research laboratories of IBM in 1956. They included magnetic core storage units which greatly enlarge the memory systems and increase the speed of the IBM electronic data processing machines. These units are attached to the processing machines just as extra diesel units increase the power available to pull a train. IBM labs also produced a series of high-speed printers which enable large data processing machines to record the results of their computations at the rate of 1,000 lines per minute. This is more than six times the speed of previous IBM equipment. Then there was a tape record coordinator which substantially increases the efficiency of the data processing machines through its unique abilities to handle simultaneously tape reading, tape writing and internal processing. Also added to the product line was a transistor calculator which is the first commercial calculator to employ advanced engineering techniques, such as transistors, printed circuitry and modular design. There are other products, too numerous to list.

Planning for Tomorrow

Telephone's Bell Labs figures research spending today will be repaid many times over in the future. General Electric's basic and applied research in electronics and allied areas has risen sharply over the years. Not only do our laboratories entail the time of men and the cost of money, often to no avail, but many of the products are developed over periods ranging to 20 years. The televisionfone is an example of what Bell Labs scientists are working on.

Plans and parts for this device already exist. Bell technicians probably could put a single crude version of the device into service within weeks—if enough people were willing to pay toll charges that would range upwards of $20 for a three-minute call. Bell believes a production model of the TV telephone may be offered in 15 or 20 years.

Another costly task of Bell Labs is determining what kind of new telephone equipment people prefer. Its research with thousands of customers already has uncovered desires for a lighter-weight instrument and pastel-colored units. Bell also is toying with the idea of eliminating the strident clang of the telephone. It is working on a lilting musical tone designed to attract attention without irritating eardrums. Fact is, an entire volume would be needed to describe the hundreds of undertakings by this most famed of research laboratories. And it still wouldn't cover the amazing contributions that this research arm of Telephone has made to the national defense.

Telephone, its Western Electric Co., the manufacturing subsidiary, and Bell Labs are leaders in this country's frantic efforts to produce the finest guided missiles and electronic weapon systems. Among these is Nike, the anti-aircraft guided missile system developed by Bell in collaboration with Douglas Aircraft Co., Inc. The Government, last October, authorized Telephone to start work on an aircraft warning system. This contract will run to $2.4 billion over a 10-year span. When the vast communications setup is completed, the Air Force estimates, it will cost as much as $240 million annually to operate. Equipment will be financed, built and installed by the telephone companies around the country, which will lease it to the Air Force.

A $5 Billion Business

It would be a mistake to suppose that the patents secured at enormous costs are held solely by the giant corporations. While it is true that recent consent decrees follow a pattern that has hit Hartford Empire Co. in the glass industry, American Can Co. and Continental Can Co. in cans and United Shoe Machinery in shoe manufacture, a number of lesser companies holds patents that are vital to corporate progress. Hazeltine Corp., as an example, derives its income almost exclusively from patents, registered here and abroad, growing out of its extensive research and development. The company owns about 600 domestic patents and nearly 2,000 patents in 26 foreign lands. These patented devices are essential, for the most part, to the electronics industry and have widespread applications in defense procurement. Hazeltine scarcely qualifies as a giant corporation.

Industrial research, spurred by the patent system, is a $5 billion annual business that engages more than 500,000 employes. Private industry carries out about two-thirds of all research and development work. More than one-third of the private industry research and development work is done for the Government on Defense Department and Atomic Energy Commission contracts. Biggest research and development programs are carried out by the electrical equipment and aircraft industries, which account for more than $1.5 billion of all industry outlays. Next largest outlays, in order, are contributed by the motor vehicle, chemical, machinery, professional and scientific instruments, petroleum, telecommunications, and fabricated metal products industries. About 90% of industrial research and development spending came from these nine industrial groupings. (*Please turn to page* 716)

The Broadening Base of Consumer Spending

By W. L. RADFORD

The American consumer is the hero of the great 1955 prosperity. Credit for the record sales volume which helped most corporations reach new profit peaks must go to the purchasers of autos, homes and appliances by individuals last year. At a time in early 1955 when most businessmen were thinking in terms of "hand-to-mouth" inventory operations and cost-cutting measures designed to "compensate" for reduced output, the demand for consumers goods was surprisingly high. During the year, this appetite for merchandise became even greater, thus convincing businessmen that economic conditions were healthy.

Substantial evidence exists to show that this development was far from accidental and should not have been surprising. It was spurred by steadily rising weekly earnings since the end of World War II, which have carried many families from low-income into middle-income brackets. The improvement is even more marked in terms of funds available for non-essential spending. As incomes increased, amounts which remained after coverage of food, clothing and shelter needs have risen even faster, creating a strong surge in buying power for products which make life more leisurely.

A One-Class Market

The mass market is no longer at the bottom of the income scale, according to Vergil D. Reed, vice- president of J. Walter Thompson Co. "The old so-called 'class market' is moving into the mass middle-class market, too. America is rapidly becoming a one-class market with large and growing incomes," he added.

Full impact of the change in the American market was finally realized by industry, which decided around mid-1955 to step up its spending for plant and equipment. The chief purpose of the move is to expand productive capacity—to serve the demand which apparently has developed. Even toward the end of 1955 and early this year in the face of predicted declines in consumer spending, corporations were enlarging their expansion programs.

Capital Spending Rises

This spending, by mining, manufacturing and service industries now is expected to help support the economy this year against the effects of a possible downturn in consumer expenditures. Planned capital expenditures this year by business for new plant and equipment are about $3.7 billion larger than last year's total of $28.3 billion.

Actually, the consumer market this year may be more stable than many have predicted. Reductions in auto output, which have alarmed forecasters, have been due more to an excessive production rate than to a decline in sales. Sales since the new models were introduced last fall have been at a rate well above the level of a year earlier but production of cars was so much in excess of early 1955 that substantial inventories accumulated.

Answer to the problem should be received this month, when the industry normally experiences a sharp seasonal upswing in sales. If this develops on a scale comparable to the 1955 results, current inventories will not be too onerous and auto producers will again be turning out cars in substantial volume.

Even though overtime at many auto plants has been reduced or eliminated, consumer incomes are expected to rise markedly this year due to the increase of the minimum wage rate which will raise the wages of at least 2 million workers an average of 13 cents an hour and to good-sized settlements which unions are aiming for and are expected to receive.

Income Gains Cited

These gains should extend further the upgrading of income per spending unit, which started after the end of World War II. The authoritative Survey of Consumer Finances conducted annually by the Federal Reserve Board in cooperation with the University of Michigan reveals that fully 32% of all families in the United States had income before taxes of $5,000 or more in 1954. This compared with 20% only four years earlier and 14% in 1947.

The current study which will be published soon should show that further increases were made in 1955. The change is just as marked for income groups one step lower. Thus, in 1954, 15% of families surveyed had income before taxes amounting to between $4,000 and $4,999. In 1950, 12% of the families had income in that bracket compared with 10% in 1947. Therefore, nearly half of all spending units in the United States in 1954 had income before taxes of $80 a week or more compared with less than one-quarter of all families in the bracket seven years earlier.

Growth of the market is even greater when the percentages are related to the total number of families. This was pointed out by Arthur O. Dietz, president of CIT Financial Corp. The head of the second largest auto-financing company noted that in terms of current buying power there were 35 million families with income of $3,000 or more last year compared with 14.8 million in 1946. They will probably number 37 million before the end of 1956, he added.

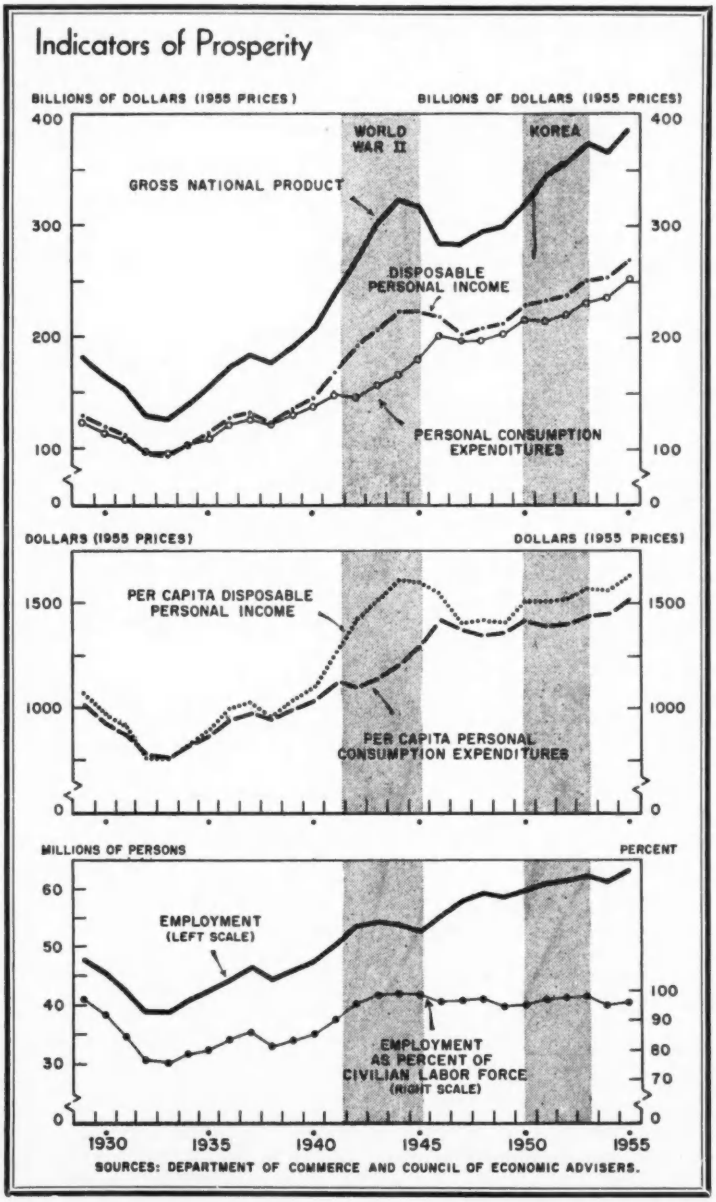
This is the group that provides 95% of the market for new cars in this country. Since 1948, annual new-car sales have fluctuated between 15 and 18% of the number of these $3,000 - plus families. At the midpoint, there would be sales of over 6 million cars which would be brought up to almost 6.5 million when the number of cars sold to lower-income groups is added. At this level, the number of cars to be produced annually stands far above what would have been considered excellent output only a few years ago.

Broad-based Spending

Autos, of course, are cited as only one of the markets which have benefited from the broadened base for consumer spending. This buying power was evident, too, in a wide variety of consumer products. Last year's record expenditures contributed to strong markets for appliances of all kinds, for home sales and a multitude of other lines.

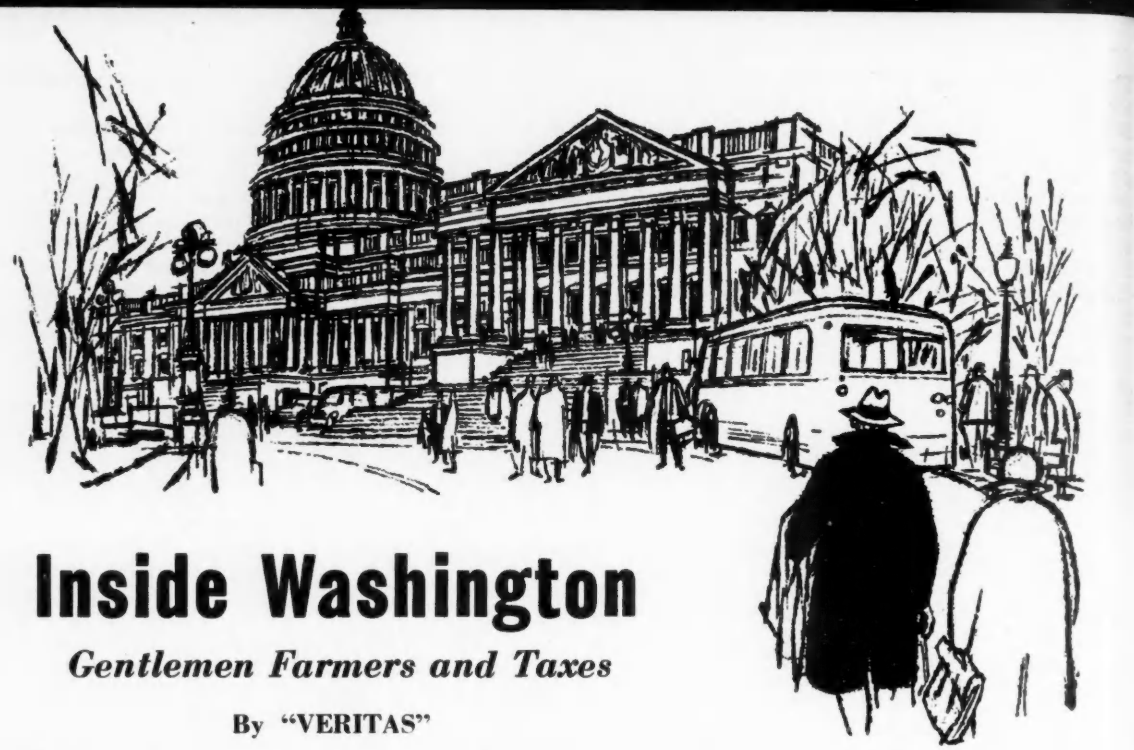
Consumer credit contributed to the ability of consumers to buy, with outstanding debt now about $5 billion higher than a year ago. It would be impossible for this rate of gain to continue, but assuming a leveling of the total amount outstanding at the current $28 billion, no trouble is anticipated in supporting the sum out of disposable income of well over $270 billion. Furthermore, a gain of about $15 billion in disposable income anticipated for this year would go a long way toward lightening the burden of unpaid consumer debt while paving the way for further expansion of the total.

Recent financing by the consumer credit companies indicates that these institutions, whose daily contacts keep them necessarily close to consumer markets, are definitely expecting an increasing amount of business. Since the start of this year, Commercial Credit borrowed $75 million on junior subordinated notes, CIT Financial Corp. borrowed $100 million and Associates Investment Co. also came to market for equity-like subordinated debt. These funds, like stock, provide a base for additional borrowings three times their size from banks or through the sale of commercial paper. Thus, these recent financings have increased the lending base of just these sales finance companies by about $1 billion.



Appliance Producers Optimistic

Appliance producers are also looking forward to new sales increases this year on top of the records set in 1955. The National Electrical Manufacturers Association predicts that sales of electrical appliances will increase 6% this year to $4.8 billion from the $4.5 billion in 1955. Comparatively new electric appliances like the 295,000 dishwashers sold in 1955, the 500,000 food-waste dispensers, 1,100,000 dryers and 1,350,000 electric blankets sparked the (*Turn to page* 718)



Inside Washington

Gentlemen Farmers and Taxes

By "VERITAS"

BRIEF CASE FARMING is about to become a Capitol Hill target. Senator Scott, North Carolina Democrat, seeks to end federal subsidy to hobby agriculture by reducing the amount of allowable deductions of farm operating costs from other income, from $50,000 to $5,000 a year. Scott wants to put an end to "fancy gentlemen being paid for farm operations" carried on under present income tax laws which permit deductions of up to $50,000 a year in farming losses from other income. Now, he says, people in high incomes operate farms on an expense account basis, as a hobby or to get around tax laws.

> ### WASHINGTON SEES
>
> Crop surplus, long the villain in the farm problem piece, is being given angelic shape and character as a cushion of safety which, the suggestions run, must be maintained.
>
> At a time when the Administration, Department of Agriculture, and (it is hoped) Congress are working on what could prove to be the first substantial step toward production-consumption balance, some influential groups are reversing their field. The Farmers Union is one of them.
>
> As are most other things in Washington, crop storage needs are being tied into the fear of atomic warfare. It is accepted as fact, for purposes of the argument, that the communist world will rain atomic and hydrogen bombs on the United States if ideologies clash in shooting warfare. The radioactive fallout would destroy vegetation within its range, not only as to standing crops but possibly for some time thereafter. That happening would send the country to its stored food and even the Department of Agriculture admits it wouldn't last long: wheat, 13 days; corn, less than four months; rice, 7 months; butter, 1½ months; rye, 8 months; barley, 5 months; oats, 24 days; soybeans, 29 days.

SHIFTING taxes from federal to state and local collectors' offices is suspect in organized labor circles. The trend has been growing since 1940. Its effect, say the laborites, is to relieve high income individuals who get socked harder by the Internal Revenue Service than they do in their own states and cities. If the new schools are built and staffed and the highways are constructed at local expense wholly or in large part, the unions see the middle- and low-income earners paying the freight and those with incomes in excess of $7,500 a year being given a free tax ride.

EMPLOYMENT in the automobile industry is not as favorable as the statisticians' reports make it, say economists of the United Auto Workers. The quarrel is not with the figures, but with the interpretations. Family income of the auto workers is depressed even in locations where there are relatively few jobless, and the answer is found in the fact that overtime and other premium pay has about vanished. The employment picture reportedly is further clouded by enforced severances of many probationary workers.

STATISTICIANS are unwilling to encourage the dim view approach to the home building outlook in the absence of up-to-date data. They say pessimism may not be warranted and they're backing a Census Bureau request for $1.8 millions to do a national home count on a sampling basis. Plan is to gather data that can be checked against the 1950 census to show what economists term the "components of change": razings, burnings, deteriorations, replacement needs.

As We Go To Press

That the President's proposed spending program for the next fiscal year is only a down-payment on an expense that will multiply is a factor that will slow its advance on Capitol Hill. So much of it contemplates a start, not a realization of full objective, that the solons are going to think several times. It was a foregone conclusion that much of it would be modified, some of it rejected. But this early in the game it's something to give pause.

The Council of State Chambers of Commerce has put the spending plan under its microscope and has come up with interesting facts. The first year's outlays contemplated in the budget message, would run to $2.1 billion. By 1960, it's figured, the same items in their advanced stage would require $5.7 billion a year. What that would do to tax reduction is quite obvious. Not only in those years of heavy spending, but also in the later years of amortization-plus-maintenance.

Expenditures for a variety of new civil and military public works which Ike would have the government undertake directly run to $86 million in 1957. This is a bare start; the total cost is $3.9 billion. Naturally the annual outlay must graduate upward to carry on the program. Military installations at home and abroad will need $1.7 billion; the Bureau of Reclamation wants to spend $8.6 million in the next fiscal year -- scratching the surface of a $1,150 million plan; the Corps of Engineers must pay $2.5 million toward the $110 million Great Lakes-St. Lawrence Waterway project; a new TVA steam plant expansion calls for 1957 expenditures of $24 million but a maximum issue of $750 million in revenue bonds; the Atomic Energy Commission wants to make a $40 million start on works that will grow to $144 million.

Federal aid for highways will be in the air until somebody answers the question: "Who will pay?" It's a sizeable inquiry. The President recommended an interstate system spread over a period of 10 years at a Federal cost of $25 billion. An additional $600 million would cover aid for state primary and secondary roads. This means $3.1 billion a year, average. That's $2,225 million more a year than the total grant authorization of $875 million under the present law.

Federal aid for school construction: a five-year program with annual grants of $250 million under the President's plan. There also is Federal purchase of local school construction bonds and help to states for reserve setups. And the Democratic majority in the House wants larger grants: $400 million annually for four years, plus the bond purchase and reserve fund provisions of the Administration plan.

The soil bank concept which is the core of the White House-Benson farm plan. It involves an acreage reserve and a conservation reserve. These are involved things with vast policing and bookkeeping. The Administration made the soil bank a companion piece to continued flexible farm price supports. The Senate's agriculture committee has approved the soil bank but also has voted to replace the flexible price supports with fixed payments at 90 per cent of parity. The President estimated the farm program would cost about one-half the present estimate. If rigid supports are indorsed by Congress, that is.

In the new spending program, too, are care for families of servicemen at a cost of about $200 million a year; a health research program at a quarter-billion dollar outlay. A flood indemnity program brings into the budget a new item that probably can't be held to the $24 million annually which is estimated. Development of employment opportunity in depressed areas is down for $50 million -- another "start" or down-payment. The Council estimates that the "spending" (new or installments on continuing items of the project type) will start a trend that will grow from $2.1 billion next year to $5.7 billion in 1960 -- an increase of 170 per cent!

Rep. Howard W. Smith of Virginia is getting little encouragement for his bill, H.R. 3, designed to protect state laws from becoming invalid when Congress passes legislation on the same subject. Its scope is vast. In the field of labor relations it would perpetuate right-to-work laws in those states which wish to have them. But it is a rule of statutory construction and constitutional authority that Congress can oust state laws which impinge the area of interstate commerce: laws which impede interstate movement are vitiated by a Congressional enactment.

Democrats have been tying much of their hoped-for political chances on a tax reduction in the lower income brackets. Now they're becoming pessimistic. The leadership has been slamming at the Treasury and the Internal Revenue Service to "close loopholes" and at the agencies to slash expenses in the hope that the tax-cut fat might be found. Their most favored plan had been to tax the first $1,000 of income at 15 per cent instead of at 20 per cent. The Treasury has chilled this notion by citing the arithmetical fact that one percentage point slice would cost $600 millions, and five percent cut would mean $3 billion less in Federal revenues. Even the Democrats don't claim there are loopholes that productive.

The budget submitted by the President gives no encouragement to the tax-cutters. It crowds expenditures up against anticipated income with hardly any clearance. And the almost certain defeat of the postage rate increase recommendation means that improved business, which means larger tax payments, is the only salvation for a balanced budget within the document itself. Now the Democrats are accusing Secretary Humphrey of understating the prospective money position. Idea, they charge, is to mark time until income goes high enough to justify cuts (as it's expected by the Democrats that it will) and then announce that the GOP "has worked out a method" for income tax relief. That line of reasoning contemplates nothing in the way of corporation tax reduction.

Armed with a Federal court decision, the first of its kind, the Federal Housing Administration has set out to recapture $40 million in windfall profits. The Government not only wants this considerable sum of money but it also wishes to establish a body of legal precedent which might act as a deterrent when new avenues to quick and handsome profits at the taxpayers' expense suggest themselves again. Heart of the decision is that distribution of the windfall profits reaped in apartment projects at Alexandria, Va., and Columbus, O., violate the corporate charters of these enterprises.

In both cases, as well as in about 200 others, builders obtained loans from FHA in excess of the actual costs of construction. Instead of returning the unused money to the Government they passed it out as windfall profit dividends. Such actions made the Government's liability greater than it should have been for the properties involved and resulted in higher rentals than would otherwise be necessary. The construction was designed in large part to provide apartments at reasonable rentals. When the opposite result ensued, the Government moved.

Regardless of the fate of the Administration farm program, in present or revised state, Congress is certain to go down by-paths in search of solutions. The Senate's finance committee is working on a food certificate plan sponsored by 23 Senators. It's bi-partisan in authorship and the fact that conservative Senator Harry F. Byrd has scheduled it for his committee gives it the dignity of sound basis rating.

It would give food stamps or certificates to persons on public assistance rolls. This would enable them to increase their consumption of plentiful foods. An amendment would include cotton certificates. Sponsors would accept that addition. Also coming on for hearing are bills to create an international food and raw materials reserve. The "World Food Bank" would use excess abundance in some parts of the world to cure famine and starvation in others.

Potentialities of the veterans home buying market are shown interestingly in data compiled recently by the Senate's housing subcommittee. There are between 10 million and 11 million World War II vets who haven't used their GI loan guaranty entitlement. The addition of a number of Korean War veterans is expected to build the total by 5.8 million when all are discharged.

NATURAL GAS INDUSTRY

Substantial Growth Ahead

By OWEN ELY

The natural gas industry has enjoyed remarkable growth in the postwar period due to the construction of thousands of miles of pipe-line, the development of huge underground storage reserves, and the discovery of substantial new reserves. Reserves of natural gas now approximate 211 trillion cubic feet, enough for about a twenty year supply, and new discoveries should expand reserves, extending supply over a much longer period. Underground storage facilities, which now approximate two trillion cubic feet in capacity, help to meet the winter peak demand for house-heating, permitting the use of gas for residential use which might otherwise be sold at lower prices during summer months for boiler fuel and other industrial uses. Thus any further increase in storage facilities should automatically improve the average sales price of gas without any increase in rates to residential consumers, improving the earnings of the utilities. Most of these storage projects use old gas or oil fields which have been depleted but which are well suited to storage.

Regarding new reserves, it is true that there has been some decline in new drilling due to uncertainties over the regulation of independent gas producers by the Federal Power Commission. The recent veto of the Harris-Fulbright Bill by President Eisenhower was disappointing, but in his veto message the President stated that he favored the act in principle, hence passage of a new law (perhaps with improved safeguards over consumer rates) seems likely, but not before 1957. In any event, settlement of this issue will permit the industry to make its plans for the future more definitely. Moreover, there are large potential reserves in the offshore areas in the Gulf of Mexico as well as in Canada and Mexico. Canadian reserves, most of them in the Province of Alberta, have been estimated to be almost as large as present U. S. reserves, though they may not have been adequately proven as yet.

Programs are now well under way to bring in substantial gas from both north and south of our borders. Some gas is already coming from Canada into Montana and in another year or so a substantial amount will be available for use in the Pacific Northwest and later perhaps in the St. Paul-Minneapolis area. There are other large gas resources in Venezuela and elsewhere abroad which could probably be changed into liquid form and brought into this country by boat. Even if these should eventually be depleted there are also good possibilities that gas can be produced from coal, although experiments to date in the Gorgas Mine in Alabama have not been too promising.

The manufactured gas industry, considered to be on its way out due to conversion of facilities to natural gas of double the heat content (less than 1% of all gas was straight manufactured gas in 1955, and 4% was mixed gas) has made great research progress with oil-gas methods in recent years. In New England, Hall M. Henry, Vice-President of New England Gas & Electric Service Corporation and a well-known authority, claims that gas can be produced in his company's plants about as cheaply as the natural gas now being imported from Texas (since this gas has to travel over a long distance to reach the consumer, the price is far higher than near the wells). It has been suggested that atomic reactors, with their tremendous huge heat potential, might be used economically to produce gas from coal or oil, but this is merely in the conjectural stage.

So far as the supply of gas is concerned, therefore, the situation is not as drab as veto of the gas bill might indicate. Moreover, the Federal Power Commission has thus far taken a practical approach to its enlarged responsibilities, and regulation may not check new drilling to the extent feared. On the selling side of the industry the outlook for an increase in sales remains excellent. The Pacific Northwest will be almost fully served within a year or so, leaving only a few states such as Maine, Florida, etc. which will not enjoy natural gas. Even now substantial new pipe line projects are being planned to "fill in" areas which remain in short supply for house-heating, such as Illinois for example.

Statistical Summary of Natural Gas Companies

PIPE LINES (SOME PRODUCTION)

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1953	1954	1955	1953	1954	1955	Price	Yield	1954-1956
Mississippi River Fuel	$1.56	$1.75	$2.00[2]	$1.10	$1.20	$1.35	31	4.3%	34⅜- 18½
Southern Natural Gas	2.06	1.89	2.37	1.40[1]	1.55	1.65	34	4.8	36⅝- 28¼
Tennessee Gas Transmission	1.24	1.30	1.76	1.05	1.05	1.40[1]	31	4.5	34½- 16⅞
Texas Eastern Transmission	1.33	1.69	2.11	1.00	1.20	1.40	26	5.3	30¼- 18¾
Texas Gas Transmission	1.59	1.63	1.74	1.00[1]	1.00[1]	1.00[1]	22	4.5	24⅞- 16⅞
Transcontinental Gas P. L.	.90	1.06	1.15[2]	.70	.70	.70	17	4.1	19⅛- 11⅛

[1]—Plus stock. [2]—Estimated.

INTEGRATED COMPANIES

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1953	1954	1955	1953	1954	1955	Price	Yield	1954-1956
American Natural Gas	$3.13	$3.52	$3.55[2]	$1.90	$2.00	$2.10	57	3.6%	60½- 39¾
Arkansas-Louisiana Gas	.53	.43	1.07	.12½	.50	.50[3]	19	2.6	20¼- 7½
Colorado Interstate Gas	1.45	2.29	4.80[2]	1.25	1.25	1.25	57	2.2	68¼- 37⅜
Columbia Gas System	.73	1.09	1.20	.90	.90	.90	16	5.6	17⅛- 12⅝
Consolidated Natural Gas	2.06	2.67	2.70[2]	1.25	1.25	1.50	35	4.2	37½- 27
El Paso Natural Gas	3.50	1.89	2.90[2]	1.60[1]	2.00	2.00	47	4.2	54½- 35⅜
Equitable Gas Co.	1.81	1.81	2.03[2]	1.32½	1.40	1.40	27	5.1	28⅞- 22⅛
Lone Star Gas	1.50	1.82	2.14	1.40	1.40	1.40	30	4.6	32½- 23¼
Montana-Dakota Utilities	.95	1.46	1.37[2]	.90	.90	1.00	25	4.0	32½- 19
Mountain Fuel Supply	1.37	1.42	1.58[2]	.90	1.00	1.10	27	4.0	30 - 20⅝
National Fuel Gas	1.11	1.40	1.45[2]	.95	1.00	1.00	20	5.0	23 - 15⅝
Northern Natural Gas	2.21	2.76	3.75[2]	1.80	1.95	2.05	43	4.7	46⅞- 38
Oklahoma Natural Gas	.94	1.62	2.03	1.15	1.20	1.20	24	5.0	25¼- 19
Panhandle East. Pipe Line	5.04	4.26	5.01	2.50	2.50	2.87½	77	3.7	88 - 67
Peoples Gas Lt. & Coke	10.21	10.88	11.40	6.00	6.25	7.00	152	4.6	173 -134½
Southern Union Gas Co.	.96	1.33	1.75[2]	0.80	0.90	1.00	22	4.5	24⅞- 17
United Gas Corp.	1.99	2.08	2.15[2]	1.25	1.31	1.50	31	4.8	35½- 27⅝

[1]—Plus 1 Western Nat. Gas for each 45 El Paso held. [2]—Estimated. [3]—Plus stock.

RETAIL DISTRIBUTORS

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1953	1954	1955	1953	1954	1955	Price	Yield	1954-1956
Alabahama Gas Corp.	$1.33	$1.74	$2.19	$ .80	$1.04	$1.28	33	3.8%	38¼- 16⅞
Atlanta Gas Light Co.	1.65	1.71	2.11	1.20	1.20	1.25	28	4.4	29 - 21¼
Brooklyn Union Gas	2.12	2.50	2.70	1.50	1.60	1.80	33	5.4	36½- 26
Gas Service Company	1.41	1.86	1.90[2]	——	.93	1.36	24	5.6	28 - 22⅝
Houston Natural Gas Corp.	2.02	2.15	1.82	1.10	1.00	1.00	22	4.5	29 - 21
Laclede Gas Co.	.98	.85	.97	.50	.60	.63	15	4.2	16 - 9¾
Minneapolis Gas Co.	1.33	1.69	1.70[2]	1.15	1.20	1.25	25	5.0	27⅞- 23½
Northern Illinois Gas	——	.84	1.12[2]	——	.50	.80	19	4.2	23½- 15¾
Pacific Lighting	2.00	2.38	2.81	1.62½	2.00	2.00	39	5.1	42 - 33⅝
United Gas Improvement	2.39	2.10	2.15	1.76[1]	1.80	2.00	36	5.5	39¾- 33½
Washington Gas Light	2.10	3.03	2.98	1.80	1.80	2.00	40	5.0	42¼- 30⅝

[1]—Plus 1/10 share Niag. Moh. Pr. & 1/20 share Consumers Pr. [2]—Estimated.

OIL COMPANIES WITH LARGE NATURAL GAS RESERVES

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1953	1954	1955	1953	1954	1955	Price	Yield	1954-1956
Cities Service Co.	$5.22	$4.41	$4.75[5]	$2.00	$2.00	$2.10[1]	57	3.6	62⅞- 31¼
Humble Oil	4.58	4.08	5.00[5]	2.28	2.28	2.31	114	2.0	128¼- 57
Phillips Petroleum	5.25	5.20	5.55[5]	2.60	2.60	3.00	82	3.6	86⅝- 53⅜
Standard Oil of Indiana	4.06	3.61	4.50[5]	1.25[2]	1.25[3]	1.40[4]	51	2.7	53¾- 34¼
Texas Company	7.01	8.24	9.50[5]	3.40	3.75	4.25	120	3.5	126½- 57½

[1]—Plus stock.
[2]—Plus 1/50 sh. S. O. N. J.
[3]—Plus 1/60 sh. S. O. N. J.
[4]—Plus 1/50 sh. S. O. N. J.
[5]—Estimated.

Comments on Gas Utilities

PIPE LINES

Mississippi River Fuel: Earnings now benefitting by inclusion of Natural Gas & Oil, merged in June. Another gain projected for current year, with new petro-chemical plant and recently-acquired Mobar Corp. as factors.

Southern Natural Gas: Company completed major expansion program to reach new markets, and is developing controlled new reserves. Sharp earnings gain indicated for 1955 and some further improvement likely in 1956.

Tennessee Gas Trans.: President Gardner Symonds has ambitious plans for new pipe lines and tie-ins in both this country and Canada. Company has long-pull growth prospects, continuing good past record.

Texas Eastern Trans.: Should benefit by expected conversion of "Little Inch" pipe line to an oil-product carrier. Selling at 14 times estimated 1955 earnings, stock seems reasonably priced considering anticipated tax benefits from recent merger with production subsidiary.

Texas Gas Trans.: Enjoyed remarkable growth from very small beginnings; share earnings showed recovery after setback in 1951-52. Company stepping up exploration and development program. Dividend payout low, may improve.

Transcont'l Gas P. L.: Serves Philadelphia, New York City and New Jersey, as well as Piedmonts in South. Stock recently split, liberal yield of 5.3%. Outlook for 1956 seems favorable, subject of course to weather.

INTEGRATED SYSTEMS

Amer. Natural Gas: Company building another new pipe line from Gulf Coast to Detroit area, to be completed about mid-1956, which should considerably expand operations. Increasing share earnings since 1948.

Arkansas-Louisiana Gas: Company formerly part of Cities Service, streamlined and revitalized under new management in 1955. Favorable rate decision in Arkansas obtained. Outlook considered good, with higher cash dividend expected.

Colorado Interstate Gas: Noted chiefly for huge gas reserves (about 3% of national total). Stock sells at low yield, but dividend should be increased if pending rate cases settled favorably. New pipe lines being completed, tie-in with Peoples Gas pipe line proposed.

Columbia Gas: Stock of this huge system noted for stability, with high yield of 5.6%. Increase in dividend to $1 seen possible following "regularization" of 90¢ rate. Economies anticipated from merger of subsidiaries. Some earnings still collected under bond, however.

Consolidated Nat. Gas: Formerly Standard Oil subsidiary, ultra-conservative, equity ratio around 64%. Good earnings gain anticipated for 1956.

El Paso Nat. Gas: Probably most rapidly expanding company in industry—revenues now $175 million vs. $9 million in 1946. Diversifying into oil refining, uranium, etc. However, company has some important rate problems with FPC.

Equitable Gas: Company serves southwestern Pennsylvania, nearby West Virginia, growth slow compared with most pipe lines. Earnings stable, yield good. New petro-chemical plant, ready next January, expected increase earnings about 40¢ a share.

Lone Star Gas: Old-established, large system serving Texas-Oklahoma areas. Share earnings irregular but payout increased; gain expected this year. Expanding oil and gas production, exploration.

Montana-Dakota Utils.: Revenues 57% gas, 42% electric. Company owns or leases about 261,000 acres in important Williston Field, but drilling results thus far somewhat disappointing. Stock yield low, P-E ratio high, because of price premium for potential oil finds.

Mountain Fuel Supply: Small, integrated distributor in Utah and Wyoming. Share earnings and dividends show steady, consistent improvement since 1949. Substantial exploration program under way, with uranium possibilities.

National Fuel Gas: This integrated eastern system enjoyed reasonable growth, and earnings have shown an irregular upward trend. Space heating load important. High equity ratio.

Northern Nat. Gas: Company's rapid growth not reflected in larger share earnings until big jump in 1955 (due in part to rate increase collected under bond). Extension to Duluth-Superior area planned. Tennessee Gas Transmission proposes to build competing line into Northern's territory.

Oklahoma Nat. Gas: Earnings trend somewhat irregular, but good in recent years partially due to rate increases. Stock sells at relatively low multiple of earnings (about twelve vs. industry average around fifteen).

Panhandle Eastern Pipe Line: Excellent growth, aggressive management, substantial gas reserves. Share earnings record excellent, but included substantial amounts collected under bond in recent years. Extensive drilling program expected to improve earnings.

Peoples Gas Light & Coke: This important system serving Chicago area has had very stable share earnings, ranging around $9-11. Disappointing results with huge Herscher Dome storage project, due to leakage. A new project $80 million pipe-line to bring gas from Rocky Mountains announced.

Southern Union Gas: Small system serving non-industrialized area in Southwest. Active in new development work. Share earnings declined 1951-3, recovered sharply in 1954-5.

United Gas Corp.: Very large system serving Gulf area. Growth fairly rapid, share earnings and dividends have shown up-trend. Company diversifying in petro-chemicals, sulphur, potash, etc. Investment type issue.

RETAIL GAS UTILITIES

Alabama Gas: Earnings gained consistently past five years. Increase in dividend warranted since last summer's rate increase should further improve earnings. Stock enjoyed very substantial advance since 1952 partly on rumors of possible sales of units to municipalities.

Atlanta Gas Light Co.: Revenues showed good growth but share earnings (while improved in past two years) about same as in 1946. Dividend rate raised to $1.40 after remaining at $1.20 for 7 years.

Brooklyn Union Gas: Reported increased earnings for 1955 despite 10% cut in house-heating rates earlier in year. Drive to increase house-heating sales seems successful, additional supplies of gas becoming available. State Commission investigating other residential rates, however.

Gas Service: Formerly controlled by Cities Service from which it still buys most of its gas. Distributes gas in Oklahoma, Kansas, Missouri. While company does not enjoy dynamic growth and earnings irregular, stock sells reasonably in relation to earnings.

Houston Nat. Gas: Excellent growth, but share earnings after increasing sharply in 1953-54 due to rate relief, declined in 1955 due to higher costs. Dividend payout very low; increase should be forthcoming.

Laclede Gas: Revenues doubled since 1950, and while share earnings increased only moderately, higher dividend payout considerably improved stock's position. Further gains in house-heating business may eventually improve earnings.

Minneapolis Gas: Enjoys very favorable franchise; earnings improved slowly but rather steadily. Further gains in house-heating business considered possible though area is not "growth" section.

Northern Illinois Gas: Stock "spun off" from Commonwealth Edison 1954. Prospects excellent for growth of house-heating sales, but company may not get needed gas from Herscher Dome. Investment-type issue, excellent management.

Pacific Lighting: This huge California distributor showed good earnings recovery in past two years, but long-term record has not paralleled growths of revenues. High saturation in house-heating; some industrial sales affected by oil prices. Good quality, reasonable yield and PE-ratio, not much speculative appeal.

United Gas Improvement: At one time a huge holding company, with dividend record since 1885, but now reduced to moderate gas operating unit. 63% equity ratio unusually high, but heavy dividend payout affords a liberal yield.

Washington Gas Light: Serving District of Columbia and adjacent areas, revenues include very little industrial business. Share earnings irregular in recent years but recovered sharply in 1954, and dividend rate has improved. Dividends paid since 1866.

OIL COMPANIES WITH LARGE NATURAL GAS RESERVES

Cities Service: One of the larger medium-sized oil units, company continues to build up extensive gas holdings despite previous divestment of two subsidiary producers. Reserves estimated at approximately $40 per share.

Humble Oil: 87% owned by Standard Oil of N. J., owns one of the biggest reserves, estimated at 16 trillion cubic feet. Company's long range prospects partly center on these huge holdings, which have scarcely been developed.

Phillips Petroleum: Outstanding producer of natural gas and natural gasoline; reserves are considered one of the greatest in the industry, and are estimated at $58 a share. Aggressive in petrochemicals.

Standard Oil of Indiana: Dominant factor in petroleum products in Middle West. Potential gas reserves estimated at 11.4 trillion cubic feet. Owns or has interest in 25 natural gasoline plants.

Texas Company: Major domestic petroleum unit important in World oil industry. Natural gas reserves total about 11.1 trillion cubic feet. Also active in tidelands development and petrochemicals.

Expanding Markets for Natural Gas

The gas utility industry is racing with the electric power and light industry to set up new sales records. Electricity has been favored in 1955 by the huge increase in the requirements of the Atomic Energy Commission, while gas sales received a fillip from cooler weather last fall. In the twelve months ended November 30th natural gas pipe line companies (as reported by the FPC) increased their revenues 18% and their net income 22%; for the month of November alone the increases were 18% and 30% respectively. For the twelve months ended October 31 the electric utilities showed a gain in KWH sales of 14%, though revenues gained only 10% and net income 9%; and for the month of November the latter figures were about the same. The gas companies accomplished their earnings feat with an increase of only about 6% in net utility plant while the electric utilities increased plant nearly 9%.

The gas industry, under the leadership of the American Gas Association, is now beginning to wage a strenuous campaign to sell more appliances. Marvin Chandler, President of Northern Illinois Gas Company, has pointed out that most gas ranges and water heaters are substantially lower in price than their electric counterparts. The cost of cooking by gas averages only a little over half the cost of electricity, and it costs only one-fifth as much to operate a clothes dryer or a summer air conditioning unit, although a gas unit may cost more than an electric. So far as house-heating is concerned, the cost of using a gas appliance should be considerably lower in the south though perhaps not in the north. It is estimated that in the south a heat pump can be operated at a cost about 35% lower than an electric heat pump, and that maintenance costs would also be considerably lower.

However, cost experience with heat pumps designed for both winter heating and summer cooling is still in the early stages. While there are a few thousand electric heat pumps in operation, most of them in the south, the gas equivalent of the heat pump is still being developed by Servel and other makers. Theoretically, however, a gas heat pump should be nearly three times as efficient as an electric heat pump since the latter obtains only about one-third of the heat value of the fuel, much heat being wasted or lost in the generating plant. The gas pump would utilize the waste heat of the unit itself instead of depending entirely on outdoor air for a source of heat, as does the electric unit.

Mr. Chandler predicted for his own company that average residential consumption should increase to 1,534 therms in 1975 compared with 826 in 1954, an increase of 85%. For the industry as a whole he anticipated an increase of 79% in the number of residential customers during the twenty years 1955-75, an increase in residential sales (including house heating) of 212%, and a gain in total therm gas sales of 172%.

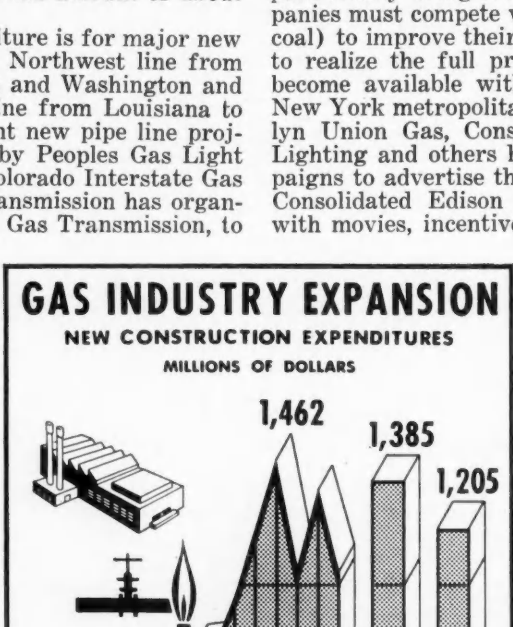
Opening New Sales Territories

The industry, according to forecasts by the American Gas Association, spent about $1.4 billion for expansion last year, and in the four-year period 1955-8 is expected to spend a total of at least $4.3 billion, or an average annual amount of about $1.1 billion.

Much of the current expenditure is for major new pipe-lines such as the Pacific Northwest line from New Mexico to Idaho, Oregon and Washington and the American Natural Gas Line from Louisiana to the Detroit area. An important new pipe line project has just been announced by Peoples Gas Light & Coke in cooperation with Colorado Interstate Gas and others. Tennessee Gas Transmission has organized a subsidiary, Midwestern Gas Transmission, to bring gas to Chicago and other midwest market areas, and Peoples Gas is opposing this move and urging its own plan instead. The Peoples Gas project would increase that company's delivery capacity some 40% at a pipe line cost (to Peoples) of about $80 million.

Up in Canada various plans have been under way to bring supplies of gas across from Alberta to Ontario and Quebec, and these may provide new tie-ins with U. S. pipe lines such as Tennessee. The proposed Canadian transcontinental pipe-line project cannot pay its own way, however, without Government help because of the long mileage involved through sparsely populated areas which would not take much gas from the line.

There have been some fears that the rising price of gas in the field in this country will "price the industry out of the market". This might eventually be true in the New England area but in many other segments of the country the price of gas is still low as compared with coal and oil, due mainly to respective transportation costs from the source of supply. While some further increase in field costs may prove necessary to maintain the incentive for new drilling, FPC regulation should prevent any over-rapid and unwarranted increase in field prices.



Gas Industry Needs Must Be Considered

Under the present Administration the FPC has followed a much more reasonable regulatory policy than under the Democratic regimes at Washington. The Commission will probably try to reconcile the needs of the industry to develop new reserves with the ethics of consumer protection and with the maintenance of good market outlets for the industry. However, the Commission in order to do this effectively will have to determine practical standards of "just and reasonable rates", which now supersede its former test of "fair field price".

Conditions may continue to vary widely for natural gas retailers in different parts of the country. Thus in many inland areas the companies are still struggling to supply the accumulated backlog of demand for house-heating gas, while in other areas, particularly along the Atlantic Seaboard, the companies must compete with oil (or in some cases with coal) to improve their house-heating sales as well as to realize the full profit potentialities, which only become available with a good load factor. In the New York metropolitan district for example, Brooklyn Union Gas, Consolidated Edison, Long Island Lighting and others have been waging strong campaigns to advertise the merits of gas house-heating. Consolidated Edison has organized block parties, with movies, incentive prizes, etc. and has obtained good results. Brooklyn Union Gas lowered its house-heating rates 10% last year but still showed a good gain in share earnings for 1955. Long Island Lighting, with its large (and in part thinly populated) service areas, has a more difficult program, but the company reports considerable progress in installing gas house-heating in new homes. When the company is able to earn 6% on its investment in gas facilities, share earnings are expected to improve substantially.

In order to finance its heavy construction program, the gas industry did about $705 million worth of financing in 1954, and in 1955 about $772 million. Thus the industry increased its financing about 10% last year although the electric utilities cut back their sales of securi- (*Please turn to page* 704)

CHANGING REGIMES

Backward and Modern Regimes Join Quest for New Leaders

By V. L. HOROTH

Recent months have produced quite a crop of political changes around the Free World. Some countries have new presidents, one has overthrown a totalitarian dictatorship, several have passed or are on the verge of passing from colonial status to sovereignty. Still others are simply searching for more effective leadership. In most cases, however, the changes in leadership or governmental status merely mask more deep-seated economic and social changes. The changing international scene, and more particularly the shift in the emphasis in the Cold War from a military to an economic contest also has been a factor in recent political developments. In some countries Russia's honeyed promises of economic aid have brought forth politicians who, like Nasser of Egypt and Tito of Yugoslavia, hope to get all they can by playing both sides against the middle.

Broadly speaking, the background for recent governmental changes may be said to fall into three patterns:

Quest for New Leaders

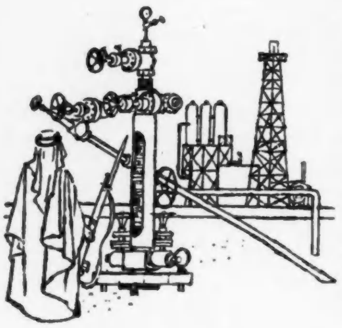
The first group includes countries in search of new leaders to carry out the long-postponed transition from the postwar period of easy profits and to show the way out of economic morasses that overhasty industrialization has created. In Brazil, newly-elected President Kubitschek is expected to produce miracles in giving Brazil overnight a sound economy wthout anyone needing to tighten his belt. Similarly, the Government of Provisional President Aramburu in Argentina has the sizable task of overcoming the economic stagnation in which the country found itself at the end of the Peron era. As to Chile, now making a heroic attempt to arrest a runaway inflation that has negated most past progress, it is still too early to say whether the Ibanez Government will survive the operation.

The second group consists of countries in which recent political changes have been influenced by colonial crises. These include France, anxious to evolve a compromise that will give sovereign rights to the Arabs in North Africa, but would at the same time protect the legitimate rights of several hundred thousand Frenchmen living there. Fully sovereign status, now being implemented, was granted a few months ago to Tunisia and to Morocco. Meanwhile the transformation of the British Colonial Empire into the British Commonwealth of Nations has been going on quietly. As of January 1, 1956, the Anglo-Egyptian Condominium over the Sudan ended and a new independent state of Sudan, larger in area than all of Western Europe, emerged in Africa. Sometime during the year the largest British colony, with 30 million people, Nigeria, is to become a federation with dominion status. Another dominion scheduled to emerge early in 1957 is Malaya. Next year may also see the thirteen British colonies in the Caribbean joining into a new nation, with the Federal capital probably located on the island of Grenada.

Soviet Pressures A Factor

The Soviet political and economic offensive has had a great deal to do with the political changes in the third group of countries. Returns in from the Presidential elections held recently in Finland indicate that that country will continue on a more or less neutralist path. The outlook, as will be seen, is none too good in Greece, where recent elections returned to power the pro-Western coalition, but with a majority that will hardly make it effective.

No important political changes have as yet taken place in Southeast Asia, but political neutralism seems to be gaining there, too. In Cambodia, one of the new sovereign countries carved out of what was formerly French Indo-China, the prime minister, who is the former king, returned from a visit to Peiping ready to pursue a more or less neutralist policy, despite the generous help that his country has been getting from the United States. Thailand also seems to be wavering, as reports from Peiping tell of unprecedented economic development in Red China, achieved, of course, at the cost of human misery, of which it is hard even to conceive. Pakistan, which has been complaining that the United



States has failed to give her unequivocal support in her quarrel with Afghanistan, is reported to be considering Russia's and China's offers for closer trade relations. Russia's objective is, of course, to weaken Pakistan's hitherto strong pro-Western orientation.

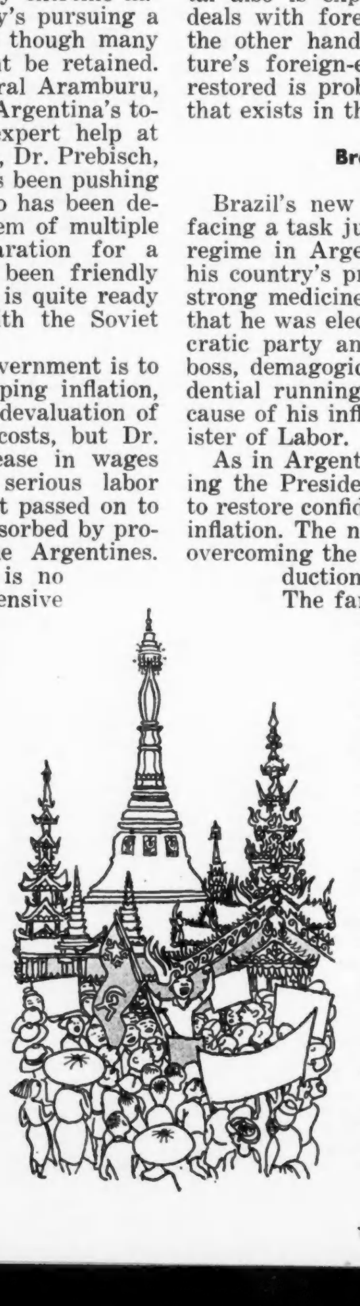
Totalitarian Economy in Liquidation

General Lonardi, who successfully dethroned Peron, surrounded himself with many extreme nationalists who believed in the country's pursuing a goal of self-sufficiency. It looked as though many economic features of Peronism might be retained. But the second regime, that of General Aramburu, has favored a speedier liquidation of Argentina's totalitarian economy. It has sought expert help at home and abroad. One of the key men, Dr. Prebisch, former head of the Central Bank, has been pushing decontrol and sound money. The peso has been devalued and Argentina's complex system of multiple exchange rates simplified in preparation for a single-rate system. The regime has been friendly to Washington, but at the same time is quite ready to enter into economic bargains with the Soviet Union and the satellites.

The first task of the Aramburu Government is to restore confidence in money by stopping inflation, but without antagonizing labor. The devaluation of the peso has already raised living costs, but Dr. Prebisch hopes that the 10% increase in wages granted last month may prevent serious labor troubles, provided this increase is not passed on to consumers in higher prices, but is absorbed by profits and higher productivity by the Argentines.

The second task of Dr. Prebisch is no less difficult. He must obtain extensive financial assistance abroad—he estimates that the country will need at least $1.2 billion during the next three years. This external assistance is needed to streamline Argentina's industries, which are inefficient by modern standards. Fertilizer, tractors, and other equipment are needed to increase farm productivity. Argentine farmers were sadly neglected by the Peron regime, although about 90% of all foreign exchange earned is contributed by them. Argentine railroads also need to be re-equipped, and petroleum output must be expanded. Transportation and a shortage of power are the two most serious bottlenecks, which, unless removed, will hinder future economic expansion. Last year petroleum imports cost Argentina some $190 million.

The big question is where the money will come from. Argentina is hoping for a big loan from the United States, probably through the Export-Import Bank. However, in view of the fact that the Brazilian and Chilean economies might also need some shoring up, Argentina may have to be satisfied with a modest amount. Argentina's membership in the World Bank and the International Monetary Fund may likewise gain for her access to some funds. Private U.S. and European capital also is expected to be solicited, once Peron's deals with foreign industrialists are reviewed. On the other hand, the hope that Argentine agriculture's foreign-exchange earnings may be quickly restored is probably premature in view of the glut that exists in the world markets for farm products.



Brazil Seeks Foreign Help

Brazil's new President, Juscelino Kubitschek, is facing a task just as difficult as that of Aramburu's regime in Argentina. But he too is realistic about his country's problems and is willing to administer strong medicine if necessary—this despite the fact that he was elected by the pro-Vargas Social Democratic party and that he had to take that party's boss, demagogic "Jango"Goulart, as his Vice-Presidential running mate. Goulart gained notoriety because of his inflationary policies while Federal Minister of Labor.

As in Argentina, so in Brazil, the basic task facing the President and the able men around him is to restore confidence in money and stop the runaway inflation. The new President proposes to do this by overcoming the three major bottlenecks: Food production, transportation and electric power.

The farmer is to be helped by the building of warehouses and silos; the neglected railway system is to be overhauled; country roads are to be improved, and coastal shipping encouraged. More hydro-electric centrals are to be built to overcome Brazil's crippling power shortage, which has also been straining the country's international payments. Last year, coal and petroleum imports cost more than $250 million. Yet there is plenty of petroleum. However, the government-owned Petrobas has neither money nor know-how to get it out of the ground. Probably some scheme will be worked out before long which will enable foreign oil companies and the Petrobas to operate side by side.

To do all this, Brazil, like Argentina, will need massive foreign aid. President Kubitschek's apparently serious efforts to cut down govern-

(*Please turn to page* 708)

THE FOOD DOLLAR

By J. C. CLIFFORD

Farmer's Declining Share Stirs Unwarranted Charges

One of the major points of controversy in the current hassle over the "farm problem" is the decline in the farmer's share of the consumer's food dollar.

Prices of farm products have been declining without much interruption since early 1951. Food prices, both at wholesale and retail, also have tended downward. However, the decline in retail food prices has been smaller than the decline in farm prices, with a resultant contraction in the percentage of the consumer food dollar accruing to the farmer.

During recent years, all kinds of costs — such as transportation, processing, distribution, etc. — have been rising, owing in considerable measure to the uptrend in wages. It is readily understandable why the farm-retail spread has widened. Even if the in-between costs had held constant, retail food prices would have declined by a smaller percentage than farm prices.

Some farm spokesmen, however, maintain that farmers rather than consumers are paying the increases in costs. It is contended that the percentage of consumer income spent on food is fixed and that, accordingly, the increases in in-between costs must be borne by farmers, i.e., reflected in lower prices for farm products.

Someone to Blame

This argument has not much validity, since the percentage of consumer income spent for food is not fixed.

But farmers are looking for someone rather than themselves to blame for the declines in net farm income in recent years, and the food-processing and distributing industry makes a handy target. There have been repeated charges by farm leaders that processors and distributors are "gouging." These charges, of course, have a certain amount of popular appeal.

Farmers are not so much concerned over what prices consumers pay, it should be understood. Their primary interest is in obtaining more for themselves. Farm leaders' attacks upon food processors, distributors, and brokers are not aimed at narrowing the farm-retail spread and thereby effecting lower prices to consumers.

As a matter of actual fact, the contention that farmers are getting an abnormally small share of the consumer food dollar was pretty well exploded recently by the United States Department of Agriculture. USDA studies show that, in 1955, farmers received 41% of the consumer's food dollar. This was equal to the 1920-1929 average and slightly above the prewar 1935-1939 average.

Farmers' Share Falls

To be sure, the farmer's percentage has been declining since World War II, when it averaged 53%. Farmers reaped the benefits of inflation during the war while in-between costs were held down by Government edict.

The Department of Agriculture says: "The rapid increase in the farmer's share during World War II was caused by an almost 100% increase in prices farmers received. The marketing margin went up only an eighth during this period.

"The marketing margin and farm value are now in about the same relationship as just before World War II. The total increase in each series is more than 100%. Since 1940, the farm value has increased slightly more than the marketing margin.

"The slower rise in the marketing margin during World War II was partly the result of wartime wage and price controls."

Spiking the "gouging" accusations, the department notes that while total profits before taxes of large food processors, wholesale distributors, and retail food chains have risen substantially since 1945, the larger total profits are due primarily to the increased volume of sales handled by these firms.

Jiffy Foods A Factor

The food marketing system is providing more services — such as packaging, processing and more "convenience" foods —that add to the labor and cost required to move foods from the farm to consumers, according to the USDA findings. Production of processed foods since 1940 has increased by almost 50% compared with an overall increase of about one-third in total food production. Consumers are eating more meals away from home than in 1940, reflecting primarily the increase in employment and noonday eating in restaurants and cafeterias. Meals eaten out account for about a dollar of every $4 spent for food.

The USDA findings, as noted above, certainly would seem to be sufficient to quell farm leaders' accusations, especially in view of the department's widely recognized concern for the farmer's point of view. Nevertheless, the accusations continue.

The Grocery Manufacturers of America, Inc. recently completed an exhaustive study on the validity of farm leader's accusations. Paul S. Willis, president of GMA, agreed with only one charge — the price spread is too wide. On this point, Mr. Willis said: "This increase in spread has been largely caused by higher wages, higher taxes, and higher transportation costs, which have accounted for about 80% of the increase in spread since 1939. Transportation costs are up largely as a result of rising wage and tax expenses of the carriers."

With respect to the accusation (1) that the decline in farm prices has not been reflected in retail food prices and (2) that the increase in spread is due to profiteering or inefficiency on the part of processors and distributors, he declared that since 1952, the peak year of retail food prices, two-thirds of the drop in raw food prices has been passed along to consumers in lower retail prices. Net profits of grocery manufacturers and distributors have shown no change in rate, while greater efficiencies in processing and distribution have helped to cushion the impact of increases in wages and other costs. Had there not been a considerable increase in food industry efficiency due to heavy investment in plant, equipment and better methods, the rise in wage rates would have forced a much greater increase in the spread than actually occurred.

Net: 3 Cents On A Dollar

The GMA survey found that net profits of grocery manufacturers and distributors today are at the rate of about 3 cents of the consumer's food dollar as compared with nearly 6 cents in 1939, a finding that should dispel the charge of "profiteering" in the industry.

Actually, of course, competition in the industry is so keen that there is no opportunity for profiteering. Instead of adding to the postwar increases in price spread, the industry's lower rate of profit has offset to some extent the increases in other costs.

The GMA spread studies found that higher wage costs, higher transportation costs and higher federal income taxes have accounted for 75% to 80% of the increased price spread for every postwar year since 1946.

Vital Statistics On Retailers and Processors

Food Retailers

	1954					1955					
	Net Sales (m)	Net Income (m)	Net Profit Margin	Net Earnings Per Share	Div. Per Share	Net Sales (m)	Net Income (m)	Net Profit Margin	Net Earnings Per Share	Div. Per Share	Recent Price
American Stores	$ 624.6	$ 7.0	1.1 %	$ 4.87	$ 2.00[7]	$ 317.1[1]	$ 4.2[1]	1.3 %[1]	$ 2.93[1]	$ 2.00	57
First National Stores	470.6	7.9	1.6	4.87	2.25	n.a.	3.6[1]	n.a.	2.23[1]	2.40	55
Food Fair Stores	410.0	7.3	1.7	2.37	.80[7]	240.7[2]	4.9[2]	2.0[2]	1.55[2]	.90[7]	53
Grand Union Co.	219.4	2.8	1.3	3.64	.50[7]	203.3[3]	2.5[3]	1.2[3]	1.36[3]	.55[7]	31
Great Atlantic & Pac. Tea Co.	4,139.9	32.2	.7	14.58	7.00	n.a.	n.a.	n.a.	n.a.	7.00	180
Kroger Co.	1,108.6	14.9	1.3	4.04	2.00	1,219.4	14.3	1.1	3.88	2.00	47
National Tea Co.	520.3	6.5	1.2	3.20	1.60[7]	430.4[4]	5.2[4]	1.2[4]	2.47[4]	1.60	44
Safeway Stores	1.813.5	13.9	.7	3.47	2.40	1,324.9[5]	7.8[5]	.5[5]	1.81[5]	2.40	52
Winn-Dixie Stores	260.8	5.1	1.9	1.12	.52	66.4[6]	1.2[6]	1.9[6]	.28[6]	.66	24

m—in millions.
n.a.—Not available.
[1]—6 months ended Oct. 1.
[2]—28 weeks ended Nov. 12.
[3]—9 months ended Nov. 26.
[4]—40 weeks ended Oct. 8.
[5]—36 weeks ended Sept. 10.
[6]—12 weeks ended Sept. 17.
[7]—Plus stock.

Food Processors

	1954 Net Sales (m)	Net Income (m)	Net Profit Margin	Net Earnings Per Share	Div. Per Share	1955 Net Sales (m)	Net Income (m)	Net Profit Margin	Net Earnings Per Share	Div. Per Share	Recent Price
Armour & Co.	$2,056.1	$ 1.5	(d) .07 %	$(d).35	$ ——	$1,967.7	$10.1	0.05 %	2.49	$——	15
Borden Co.	776.8	22.7	2.9	4.82	2.80[3]	603.2[1]	16.0[1]	2.6[1]	3.42[1]	2.80	58
California Packing	233.8	8.8	3.8	4.61	1.50	n.a.	n.a.	n.a.	n.a.	1.65[3]	42
Campbell Soup	338.6	23.5	6.6	2.36	n.a.	377.5	29.1	7.7	2.73	1.50	41
Corn Products	216.1	15.8	7.3	1.75	1.28	204.9[1]	11.5[1]	5.6[1]	1.25[1]	1.33	30
General Foods	824.8	31.7	3.8	5.29	2.75	664.0[1]	28.6[1]	4.3[1]	4.86[1]	3.10	90
General Mills	513.6	12.3	2.3	5.02	2.50	255.6[2]	5.0[2]	1.9[2]	1.98[2]	2.75	66
Heinz (H. J.)	234.1	8.7	3.7	5.02	1.80	128.7[2]	5.3[2]	4.1[2]	3.10[2]	1.80	53
National Biscuit	376.3	19.9	5.2	2.85	2.00	389.6	18.2	4.6	2.59	2.00	37
National Dairy	1,210.3	37.3	3.0	2.77	1.55	947.4[1]	29.8[1]	3.1[1]	2.22[1]	1.60	37
Standard Brands	415.8	10.5	2.5	3.02	2.15	305.7[1]	7.2[1]	2.3[1]	2.05[1]	2.15	40
Sunshine Biscuit	119.2	6.0	5.0	5.88	4.00	n.a.	4.5[1]	n.a.	4.41[1]	4.00	72
Swift & Co.	2,510.8	19.0	.7	3.22	3.00	2,404.1	22.8	.8	3.87	3.00	47

(d)—Deficit.
n.a.—Not available.
[1]—9 months.
[2]—6 months.
[3]—Plus stock.

"It may be true," Mr. Willis said, "that the addition of 'built-in' services has added to the cost of some items. However, the studies that we have made reveal that built-in services have reduced rather than raised costs. Our studies include frozen orange juice, frozen peas, canned corn, baby food, devil's food mix, etc."

The GMA president also denied the oft-repeated assertion that the rise in the farm-retail spread has caused the drop in net farm income. Gross farm income from the sale of raw food products of $18.5 billion in 1955 was practically the same, he noted, as in 1947, when the all-time peak for net farm income was established. The spread between net farm income and gross farm income has widened owing to continuing increases in farm production expenses for labor, transportation, taxes, machinery, and other factors. These cost increases are very similar to those experienced by food manufacturers and distributors.

The analysis of the situation made by the GMA coincides to a great extent with that made by the Department of Agriculture.

Plight of The Packer

Meat packers have been under fire because the price of beef and pork at retail has not declined as much as the price of beef animals and hogs. Here again, however, we encounter the matter of rising wage, transportation, distribution and other costs. Wages have been rising all along the line from packinghouse workers to retail clerks.

One recent analysis indicates that meat packers' profits for the industry as a whole were half a cent per dollar of sales in 1955 as compared with 1.2 cents in 1947. Farmers' marketings of meat animals were substantially larger last year than in 1947, and promise to be even larger this year.

The big retail food chains, competing energetically for the consumer's food dollar, are operating on the most slender of profit margins. So keen, in fact, is the competition that, in the New York suburban area for example, a number of supermarkets in the heart of villages have been closed and the business transferred to giant supermarkets in lower-cost outlying areas.

Food chain profits after taxes on all sales, including meats, fell just short of a cent (0.99 cents) per dollar of sales in 1955, representing a substantial decline from profits of 1.22 cents in 1954, according to the National Association of Food Chains. This decline occurred, notwithstanding the fact that consumer expenditures for food rose in 1955.

Plight of The Broker

The food broker, one of the so-called middlemen, frequently is assailed as contributing to the widening of the farm-retail food spread.

Yet, according to Paul Sayres, president of Paul Sayres, Inc., leading Eastern food broker, one of the major functions of the food broker today is to assist that manufacturer in reducing distribution costs. Mounting raw-material and distribution costs are playing havoc with manufacturer pricing structures and the perpetual parade of new products is pulling tightly on the competitive reins of the older, more established firms.

In direct selling setups, according to Mr. Sayres, a manufacturer figures 8% of the dollar value of goods sold is chargeable to sales operations. The more effective food-broker methods, however, have been instrumental in whittling selling costs down to 5%.

The role of the food broker and his services in product merchandising is taking on increasing importance. Of the top 200 grocery accounts in the New York metropolitan area, 120 are handled by brokers and a similar trend is reported throughout the country. Food brokers today are credited with the building of the major machinery for food distribution.

Brokers have been responsible to a considerable degree, Mr. Sayres states, for the successful introduction and sale of the newer food items that vie actively for the limited shelf space in the nation's food outlets.

Food-selling today, he notes, is highly competitive. In 1928, he points out, there were 876 items fighting for store shelves, but this number now has risen to almost 5,000 products. Approximately 60% of these are handled by food brokers.

The broadening acceptance of these products has been achieved largely through the specialized knowledge and merchandising skills without which the food broker would be just another "drummer." Today's food broker operates less as a mere broker, except for the commission basis of remuneration, and more as a merchandising consultant and "resident sales agent."

Consumers today are spending a somewhat larger than "normal" percentage of income for foods—including hundreds of mixes and quick-frozen foods that scarcely existed no longer ago than the end of World War II—and food brokers are responsible to no inconsiderable extent for this uptrend in consumer spending.

Gouging Charge Unfair

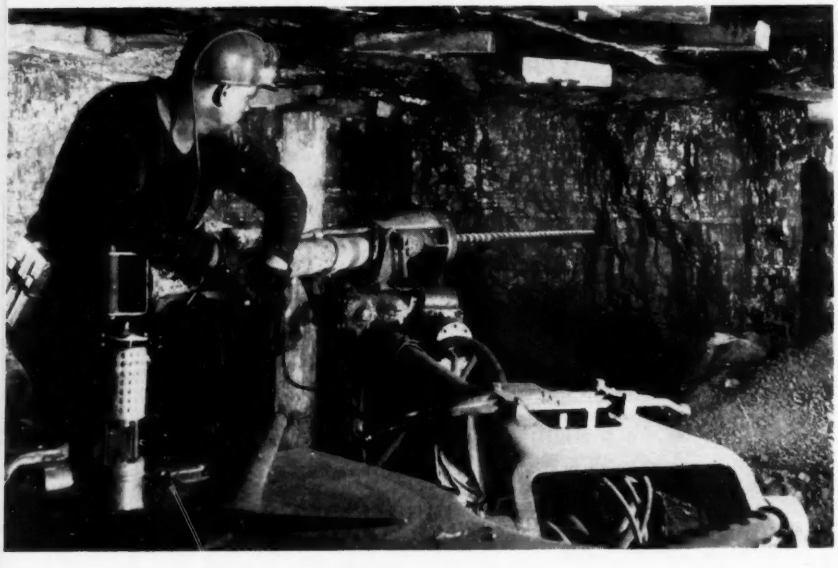
There appears to be no basis for the contention that those engaged in the processing, distribution and retailing of foods are making large profits at the expense of both the farmer and the consumer. If anything, profits have shrunk in recent years in terms of sales dollars.

Unquestionably, it is necessary to search elsewhere to locate the source of the pressure on net farm income.

Some of the current distortion in agriculture, according to those closely in touch with the situation, is the direct result of Government restriction programs for the major field crops. Acreages of cotton and wheat have been cut back sharply by Department of Agriculture edict, owing to the huge accumulations of these products in Government hands as a result of price-support programs. Since wheat and cotton farmers cannot afford to let any great amount of land and equipment lie idle, they have gone into cattle and hog-raising in a big way and have devoted much acreage to animal feeds.

This has intensified the competition for markets for meat animals, with resultant lowering of livestock prices. The older areas, dependent upon livestock raising to a much higher degree than the newer competing areas, are feeling the pinch.

Agricultural productivity has been rising by leaps and bounds in recent years, as a result of increased mechanization and adoption of more scientific methods on the large (*Please turn to page* 716)



Progress Report on Depressed Industries— No. 6:

THE COAL COMPANIES

By W. A. HODGES

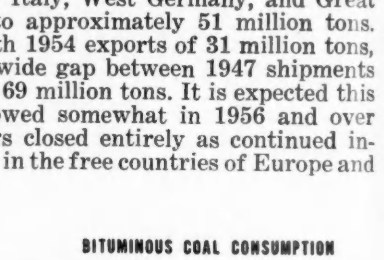
Bituminous coal, an industry that appeared moribund less than two years ago, has astounded expectant mourners, made up of people outside the industry, by its renewed vitality. After a decline from an all-time peak of 630.6 million net tons established in 1947, to a postwar low in 1954 of 394 million tons, bituminous production last year turned upward, reaching 470 million tons.

Admittedly, that rate of output was substantially under the 1947 record high, but a gain of approximately 80 million tons over the low of 1954 is taken as an indication the industry is again in the ascendancy and increases the optimism that was voiced even at the time when production was at the postwar low as to the favorable future of bituminous coal. Such sentiment, now more widespread than ever, among the bituminous coal mine operators who, while cognizant of the inroads fuel and oil and natural gas have made in past years on their market, are confident that an expanding economy will force the nation to turn more and more to coal in order to fill requirements to meet the rising demands for energy. The bituminous producers derive further confidence from the changing pattern for fuel from which the inference is drawn that gas will be used in increasing quantity as a premium fuel largely for household heating while the use of the atom on a large scale as a competitor to coal, they believe, imposes a threat that is far off in the future. Meanwhile, atomic energy installations are now burning multi-million tons of coal annually to generate electricity these plants need.

Increased Coal Exports

Giving strong support to this favorable outlook for a continuing recovery in soft coal are an increasing coal consumption by the electric utilities; the substantially greater needs of the steel industry that is programmed to add 15 million tons to its total productive capacity by 1959, and a further rise in coal exports to Western Europe which it is expected will be increasingly dependent on imports from this country because of a combination of greater consumption and diminishing sources of supplies in some sections of that area. Last year exports, chiefly to Italy, West Germany, and Great Britain, climbed to approximately 51 million tons. This compares with 1954 exports of 31 million tons, but still leaves a wide gap between 1947 shipments abroad of close to 69 million tons. It is expected this gap will be narrowed somewhat in 1956 and over the next few years closed entirely as continued industrial expansion in the free countries of Europe and South America draw upon American mines in order to fill their coal needs. Most of these exports will, as in the recent past, move through the ports of Hampton Roads and Baltimore, and will come from Virginia, West Virginia, eastern Kentucky and Pennsylvania, four of this country's seven leading bituminous states. The American coal industry is not only "carrying coal to Newcastle", but practically all European experts are in agreement that

BITUMINOUS COAL CONSUMPTION



this country has permanently replaced the United Kingdom as the great coal exporter of the world.

Importance of Metallurgical Coal

It is estimated that while the export tonnage of steam coal will increase materially in the immediate years ahead, a still greater expansion in metallurgical shipments overseas will be recorded to fill the requirements of an expanding steel industry in South America and the free countries of Europe. This type of coal, the greatest known domestic reserves of which, aside from those of captive mines of the steel companies, are located in Virginia, West Virginia, and eastern Kentucky, is as essential to steel making as iron ore, a process that requires approximately a ton of metallurgical coal for the production of a ton of steel. Last year, steel production in this and other countries of the free world was approximately 225 million tons and at the estimated rate of expansion of steel making facilities, it is estimated that over the next ten years something like 2.5 billion tons of metallurgical coal will be consumed, and possibly, over the next two decades to the end of 1975, the free world's steel industry will consume close to six billion tons. An increase of this magnitude is especially significant to the producers of metallurgical coal for the reason that at the present time this material commands a premium over the price of other types of bituminous coal. It is a fair premise that it will become increasingly valuable in the future.

Broadening the outlook for the industry is the expansion in this country's electric utility facilities with the uptrend in the construction of steam generating plants and the addition of new generating units to existing coal burning installations. Last year, soft coal consumption by the nation's electric generating plants totaled approximately 140 million tons as compared with about 115 million tons in 1954, and about 88.2 million tons four years earlier. A partial gauge to the anticipated increase in consumption by electric utilities is provided by the fact that a modern steam generating electric plant of 225,000 kilowatts of capacity will require about 600,000 tons of coal annually. In view of the diminishing sources of hydro-electric power, and on the expectation that oil and gas will be routed into more economic outlets as reserves shrink, it is estimated that increasing tonnages of coal will be consumed by steadily expanding electric utilities and that by 1975 bituminous coal producers will be called on to supply the electric utilities with close to 325 million tons of coal which would be approximately one-third of close to 900 million tons that will be required for the nation's overall needs and for shipments overseas. These are estimates, of course, but they are tempered to a considerable degree, being in contrast to even more optimistic predictions that during the next 20 years, the industry will be producing over a billion net tons a year.

Aluminum Producers' Need for Electricity

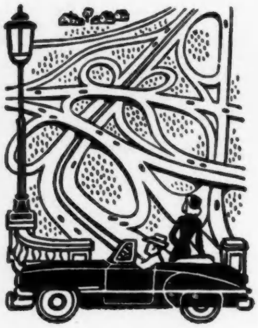
At that, such an achievement is possible if consideration is given to the expanding aluminum industry, requiring, on an average, 10 kilowatt hours of electricity to produce one pound of aluminum. From the beginning of the discovery of the electrolytic aluminum process, aluminum plants were constructed at or close to sources of hydro-electric power. Now, with hydro-electric sites not so readily available, relative newcomers into the aluminum industry are placing plants at various points where steam generated supplies of electricity are accessible or are independently or jointly with electric utilities constructing necessary power generating facilities. A case in point is the Olin Mathieson Chemical Co., which is going ahead with plans for the construction of a 60 ton aluminum plant in the Upper River Valley to which reference was made in The Magazine's article on "Aluminum", appearing in the February 18 issue. Included in the project are necessary power facilities to be known as the Kammer Plant which will be two units of 225,000 kilowatts of capacity each, but designed for development up to 1,350,000 kilowatt capacity. One unit will be owned by the Ohio Power Co., an American Gas & Electric subsidiary, and the other owned by a joint subsidiary of Olin Mathieson and the Pittsburgh Consolidation Coal Co., with both units located on top of a major new mine of the latter company. This mine will have a capability of about two million tons of coal a year, but plans for the power plant call for an ultimate size three times the initial capacity. Such a plant would burn in the neighborhood of 4 million tons of coal annually, with ultimate consumption of about (*Continued on page* 712)

Financial Statistics on 8 Coal Companies

	1954 Net Sales (Mil.)	1954 Earnings Per Share	1954 Div. Per Share	1955 9 Months Net Sales (Mil.)	1955 9 Months Earnings Per Share	1955 Div. Rate Per Share	Price Range 1955-1956	Recent Price	Div. Yield
Glen Alden Corp.	$ 73.5	$ .11	$ ——	$ 45.1	$ .85	$ .40	19⅛-11⅛	14	2.8%
Island Creek Coal	36.4	1.43	1.00	58.1	3.08[6]	1.50[1]	40⅛-20⅛	36	4.1
Lehigh Coal & Navigation	36.0	(d) .64	——	n.a.	.79	.60	16½-11	15	4.0
Pittsburgh Consol. Coal	149.1	1.87	1.00	118.1	1.19	1.20	35½-22½	34	3.5
Pittston Co.	159.7	1.64	1.00	139.4	1.84	1.20[1]	40¼-24⅝	38	3.1
Truax-Traer Coal	45.6[2]	1.95[2]	1.60	21.0[3]	.79[3]	1.60	27⅞-18	27	5.9
United Electric Coal	12.4[4]	1.01[4]	1.00	n.a.	.33[5]	1.00	22¾-15⅞	22	4.5
West Virginia Coal & Coke	9.4	.13	.15	n.a.	1.46	——	70 -24¾	52	—

(d)—Deficit.
n.a.—Not available.

1—Plus stock.
2—Year ended April 30, 1955.
3—6 months ended Oct. 31, 1955.
4—Year ended July 31, 1955.
5—Quarter ended Oct. 31, 1955.
6—Year ended Dec. 31, 1955 (Preliminary)



Plight of the Auto Independents

A Struggle for Survival Amid Fierce Competition

By WARD GATES

The two remaining independent automobile manufacturers — American Motors Corp. and Studebaker-Packard Corp. — are facing intensified competition as a result of the reduced demand for cars this year, following last year's record production of nearly 8 million cars by the auto industry.

With General Motors, Ford and Chrysler — the Big Three — locked in a bitter three-way struggle for a larger share of the now-diminished market, the two independents, as marginal producers, are going to find the going rough in 1956. The major companies are not likely, as a group, to surrender any measurable share of their present proportion of the entire auto market, which now amounts to approximately 95% of the total. That means that the two independents, barring unforseen developments, will have to continue to get along on around 5% of the market this year. This would amount to between 325,000 and 350,000 cars for the two independents, assuming that car sales this year run between 6.5 million and 7 million units.

The ranks of the independent car producers have been decimated ever since the automobile industry became really competitive in 1953 and 1954, following the postwar boom. During World War II, auto output was halted, and a big backlog of demand was created which, for a time, made it possible for all producers—even marginal units—to make a profit.

Decline of Kaiser

Last year, Kaiser Motors Corp., which had absorbed Willys Motors in 1953, discontinued production of passenger cars in this country. It confined its output to commercial and utility vehicles. Previously, in 1947, the Graham-Paige name had disappeared, when Kaiser-Frazer, predecessor of Kaiser Motors, absorbed that company. Under a plan of reorganization proposed recently to Kaiser Motors shareholders, name of that company would be changed to Kaiser Industries. Its chief assets would be stock of Willys Motors and Henry J. Kaiser Co. The latter stock would be obtained by Kaiser Motors by exchanging its shares for those of Henry J. Kaiser Co., now held by the Kaiser family and close associates which have holdings in Kaiser Steel and Kaiser Aluminum & Chemical Corp. Of the Kaiser Industries shares, only 5% would go to holders of the publicly-owned shares of Motors and 94.97% to owners of Henry J. Kaiser Co. An investment in Henry J. Kaiser Co., on consummation of the reorganization, will represent only a relatively small interest in production of motor vehicles.

Studebaker-Packard and American Motors, the surviving auto independents, have made progress at reducing their break-even point since they were formed two years ago by a pair of mergers. American Motors has integrated the production facilities of Hudson Motor Car Company and Nash Motors, at the Nash plant in Kenosha. Studebaker-Packard, too, has made much progress in integration and in cost-cutting. The corporation claims to have scored a gain of 24.5% in efficiency last year.

Both companies can undoubtedly live on a substantially smaller volume than would have been sufficient for profitable operations as unconsolidated units.

More Red Ink Ahead

At the moment, it does not look as though either American Motors or Studebaker-Packard will achieve enough volume to enable it to get into black ink in the current fiscal year. But the showing this year should be better than last year, when substantial non-recurring losses were incurred by each, as it strove to effect reorganization programs.

Here is how the managements estimate their break-even points today. George Romney, chairman and president of American Motors, estimates that his company would make a good profit on an output of 180,000 cars. That would seem to indicate that the break-even point would be somewhere around 150,000 to 160,000 units.

Presumably, the showing would be better if the company's output would include a higher proportion of the Nash Statesman and Ambassador lines, and the Hudson Hornet and Wasp lines. These are the higher-priced cars in the company's lines and the profit on these cars is larger than on the smaller low-priced Rambler.

American Motors is shooting for an output of 150,000 Ramblers as a long-range goal, but presumably would be well-satisfied if it reached the 100,000 level on this car in 1956 owing to intensified competition this year. For the company as a whole, output of 150,000 cars seems out of reach this year.

American produced 153,000 passenger cars in the fiscal year ended Sept. 30 during which it lost $6.9 million. If American could maintain that volume this year, it would probably break even, allowing for the progressive gains in efficiency and the ending of non-recurring costs flowing from the merger. Last year's output was encouraging since it represented a gain of 34.7% from the preceding 12 months, during which production was hit hard by the reorganization and by other factors.

In the quarter ended December 31, 1955—the first quarter of the fiscal year—American Motors realized a special non-recurring profit of $7.1 million on sale of security investments.

Its loss from ordinary business operations was $4.6 million, making the net profit, after allowing for the non-recurring profit on the sale of securities, $2,512,568. Mr. Romney attributed a substantial proportion of the December quarter operating loss to the heavy expense made necessary by the effort to achieve higher production on an entirely new line of Rambler cars for 1956.

American Motors realized a profit in the month of December, and if production continues at scheduled rates, it will show a profit for the quarter ending March 31, 1956. The Rambler line seems to be taking hold better. Ramblers are sold by both Nash and Hudson dealers. As against output of 10,125 Ramblers in January—double the 4,993 Ramblers produced in January 1955 — retail deliveries were 5,325 indicating that dealers were being stocked for the spring season. These retail deliveries were better than the 3,899 Ramblers sold in January of 1955.

The larger cars—the Nash and Hudson lines—are feeling the effects of the industry's overproduction last year. But, if the seasonal improvement in business makes its appearance in March, present production schedules will be maintained. The latter are apparently being geared fairly closely to sales.

The big problem for American Motors, and for Studebaker-Packard, too, will come from the seasonal decline which will probably begin in June or July. Whenever output slips because of that factor—or for any other cause—operating losses will again return for American Motors. Hence, it appears likely that any operating profit realized in the quarter ending March 31, will be more than offset by the loss incurred in the final three months of the fiscal year, which will show the effects of the slow Summer months, and the changeover costs on the new 1957 models. The quarter ending June 30 cannot be estimated as yet, but it would be surprising if the showing were as good as in the previous three months, if seasonal factors show the usual trend, since the period from January through March is one in which the factory is normally producing more cars than are being sold at the retail level.

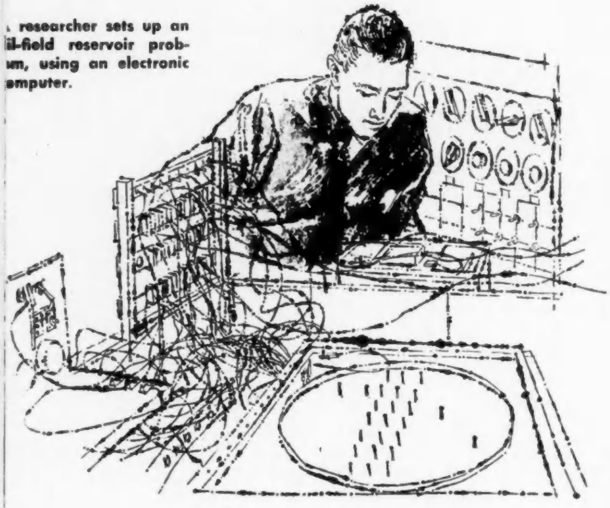
In Better Position

American Motors unquestionably has strengthened itself during the last year. The Rambler, on which the company is gambling heavily, has been completely restyled (*Please turn to page* 704)

Statistics On Three Automobile Independents

	1946	1947	1948	1949	1950	1951	1952	1953	1954 **	1955 **
AMERICAN MOTORS										
HUDSON MOTOR										
Sales (Mil.)	$120.7	$159.5	$274.7	$259.5	$267.2	$186.0	$214.8	$192.8	—	—
Net Income (Mil.)	2.3	5.7	13.2	10.1	12.0	(d) 1.1	8.3	(d)10.4	—	—
Net Profit Margin (%)	1.9	3.6	4.7	3.9	4.4	(d) .6	3.8	(d) 5.4	—	—
Earnings Per Share	1.3	3.17	7.28	5.30	6.30	(d) .59	4.15	(d) 5.20	—	—
Production (*) (000)	93	103	142	144	143	92	79	78	—	—
NASH-KELVINATOR										
Sales (Mil.)	121.5	250.2	302.8	364.1	427.2	401.1	358.4	478.6	$400.3[1]	$441.1[4]
Net Income (Mil.)	2.5	18.0	20.1	26.2	28.8	16.2	12.6	14.1	(d)11.0[1]	(d)6.9[4]
Net Profit Margin (%)	2.1	7.2	6.6	7.2	6.7	4.0	3.5	2.9	—	—
Earnings Per Share	.59	4.16	4.63	6.04	6.64	3.73	2.90	3.25	(d) 1.95[1]	(d)1.23[4]
Production (*) (000)	72	115	119	139	178	177	137	166	135[2]	153[2]
KAISER MOTORS										
Sales (Mil.)	11.5	260.1	341.5	104.4	238.0	145.6	302.9	358.9	212.3	—
Net Income (Mil.)	(d)19.2	19.0	10.3	(d)30.3	(d)13.2	(d)12.3	(d)4.7	(d)27.0	(d)35.4	n.r.
Net Profit Margin (%)	—	7.3	3.0	—	—	—	—	—	—	—
Earnings Per Share	(d) 4.82	4.00	2.27	(d) 6.65	(d) 2.91	(d) 2.70	(d)1.03	(d) 4.08	(d) 5.36	—
Production (*) (000)	—	114	181	58	149	99	75	151[5]	92[5]	.6
STUDEBAKER-PACKARD										
PACKARD										
Sales (Mil.)	106.3	138.3	231.9	212.5	173.4	178.1	233.7	335.8	222.3[3]	—
Net Income (Mil.)	4.8	3.9	15.1	7.7	5.1	5.5	5.6	5.4	(d)26.1[3]	n.r.
Net Profit Margin (%)	4.5	2.8	6.5	3.6	2.9	3.1	2.4	1.6	—	—
Earnings Per Share	.32	.26	1.01	.51	.35	.38	.39	.38	(d) 4.06[3]	—
Production (*) (000)	42	55	98	104	72	76	62	75	128	181[6]
STUDEBAKER										
Sales (Mil.)	141.5	267.9	383.6	473.1	477.0	503.3	585.3	594.2	—	—
Net Income (Mil.)	.9	9.1	19.1	27.5	22.5	12.6	14.2	2.6	—	—
Net Profit Margin (%)	.6	3.4	4.9	5.8	4.7	2.5	2.4	1.6	—	—
Earnings Per Share	.40	3.87	8.11	11.70	9.55	5.35	6.05	1.14	—	—
Production (*) (000)	119	191	233	304	334	285	233	223	—	—

n.r.—Not reported.
(d)—Deficit.
*—Combined number of cars and trucks produced.
**—Figures are for Amer. Motors and Studebaker-Packard.
1—Includes Hudson Motor div. from May 1, 1954.
2—Sales of Hudson & Nash cars, year ended Sept. 30.
3—Includes operations of Studebaker Corp. from Oct. 1, 1954.
4—Fiscal year Sept. 30, 1955.
5—Combined Kaiser Motors & Willys Motors.
6—Estimated.



researcher sets up an il-field reservoir problem, using an electronic omputer.

SPOTLIGHT

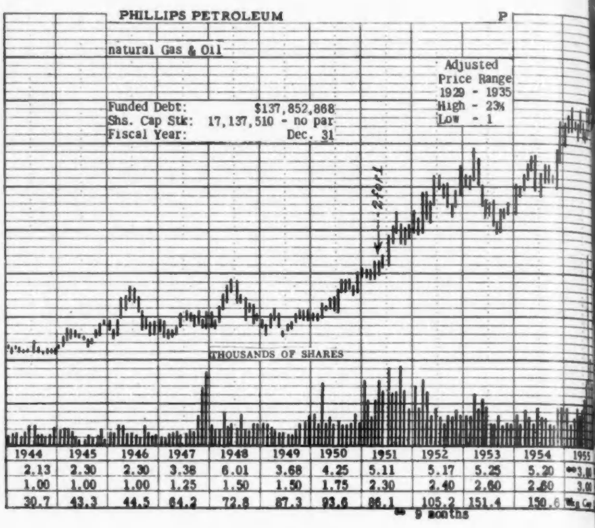
On A Growth Trio

By OUR STAFF

Action in Washington has focused attention on a number of companies in recent weeks. Many of these are growth companies, vitally affected by decisions made in the Capital, adverse and favorable.

In one of these actions—adverse to a budding industry—the Congress passed and sent to the White House the natural gas bill, which would have freed producers from direct Federal regulation, only to run into a veto from President Eisenhower. The bill was designed to undo a 1954 Supreme Court ruling, in the Phillips Petroleum Co. case, that the Federal Power Commission must regulate prices of natural gas at the wellhead. In effect, the High Court held that the natural gas producers are public utilities just as gas pipeline companies are. We have selected Phillips Petroleum and El Paso Natural Gas Co. as two outstanding companies in this field, whose long-term growth is assured despite the absence of beneficial legislation.

In another action, the antitrust division of the Justice Department obtained from International Business Machines Corp. a consent decree that sets up a five-year period during which IBM's dominant market position in the office-equipment field will be more vulnerable to competition. Stipulations of the decree require IBM to make all patents available, at reasonable royalties on a cross-licensing basis, to any company; stops requiring that any purchaser of IBM machines take IBM service or buy IBM parts or punch cards. Moreover, IBM must sell its punch-card presses at the rate of 30 per year and must divest itself of enough of this business to get down to 50% of the country's card-making capacity within seven years. Here we have selected Sperry Rand Corp. as one of the companies that should derive important benefits from the Government action. That company, which vies with IBM for leadership in the office-equipment field, filed a complaint in Federal Court, accusing IBM of monopoly practices.



PHILLIPS PETROLEUM CO.

BUSINESS: One of the largest fully integrated petroleum companies, Phillips also is one of the largest producers of natural and liquefied gas, carbon black; is a producer of sulfur from waste materials in natural gas, and is one of the foremost companies in the petrochemical industry.

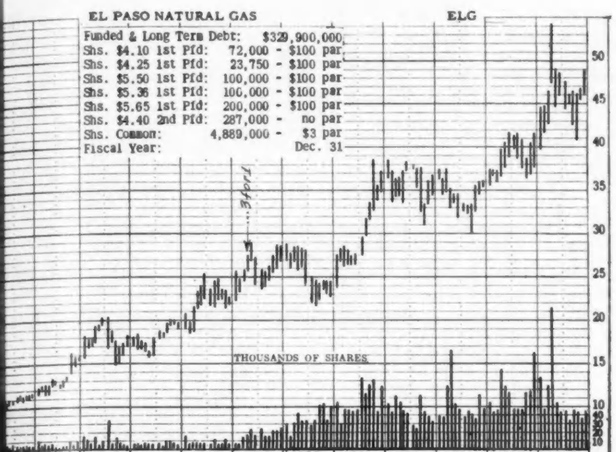
OUTLOOK: Phillips Petroleum, one of the most progressive units in a dynamic industry, within a decade has boosted gross income fourfold, soaring from a 1946 volume of $220 million to about $900 million in 1955 which, in turn, was about $104 million more than a year earlier. Profits for 1955 approximated $95 million, about 25% greater than 1954. Earnings per share are estimated at $5.54 on 17,142,787 shares outstanding at the end of 1955. This compares with $5.20 per share on the lesser number a year earlier. The company spent $78 million on capital improvements in the first half of 1955 alone, with 47% invested in oil and gas properties. For the full year, capital expenditures were about $175 million, an increase of $35 million from 1954. Capital expenditures in the year now underway should be close to $200 million. Earnings for 1956 should exceed the showing of 1955, best year in the history of the company. Its gas reserves have enabled it to become a major factor in petrochemicals. The future of its natural gas business is being planned with the knowledge that its chemical activities will need tremendous reserves of natural gas, and that requirements in the rapidly expanding industrial Southwest will continue to grow rapidly. Also, there is no reason to believe that Phillips will not continue to follow the course it has in the past of building a bulwark of reserves to back up its own expansion in other fields which will require ever larger quantities of natural gas.

DIVIDENDS: Payments on the capital stock have been made in each of the last 23 years. The stock currently is on a $3 annual basis, compared with $2.60 in 1954 and 1953. The rate has been steadily rising since 1946. Percentage dividend payout during the postwar years has averaged 42% annually.

MARKET ACTION: Recent price of 85 compares with a 1955-56 range of High—88½, Low—69½. At current price the yield is 3.5%.

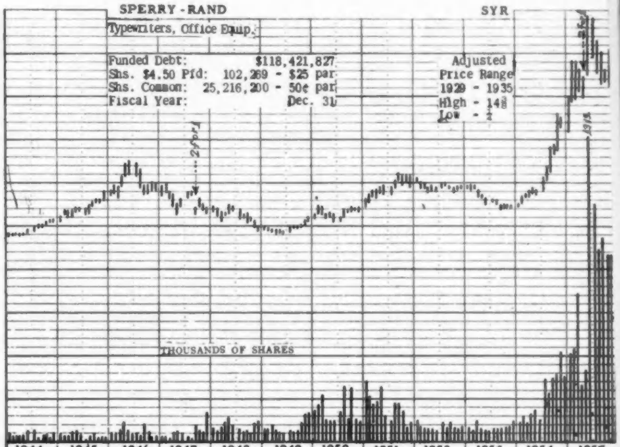
COMPARATIVE BALANCE SHEET ITEMS

	December 31 1945	1954	
ASSETS	(000 omitted)		Change
Cash & Marketable Secur.	$ 29,486	$ 87,994	+$ 58,508
Receivables, Net	16,161	74,713	+ 58,552
Inventories & Supplies	26,957	98,928	+ 71,971
TOTAL CFURRENT ASSETS	72,604	261,635	+ 189,031
Net Property	222,699	799,360	+ 576,661
Investment & Rec.	18,659	22,242	+ 3,583
Other Assets	3,060	9,508	+ 6,448
TOTAL ASSETS	$317,022	$1,092,745	+$775.723
LIABILITIES			
Long Term Debt—Curr.	$ 3,078	$ 16,121	+$ 13,043
Accounts Payable	14,274	55,555	+ 41,281
Accrued Taxes	10,333	30,485	+ 20,152
Other Accruals	1,609	8,784	+ 7,175
TOTAL CURRENT LIABILITIES	29,294	110,945	+ 81,651
Deferred Credits	373	13,987	+ 13,614
Reserves	6,151	9,317	+ 3,166
Long Term Debt	45,989	265,317	+ 219,328
Common Stock	153,824	296,045	+ 142,221
Surplus	81,391	397,134	+ 315,743
TOTAL LIABILITIES	$317,022	$1,092,745	+$775,723
WORKING CAPITAL	$ 43,310	$ 150,690	+$107,380
CURRENT RATIO	2.4	2.3	— .1



1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	
1.19	1.19	1.21	1.71	2.34	1.92	2.32	3.14	2.95	3.35	1.89	E2.50	EARN.
.80	.80	.80	.80	.80	1.20	1.25	1.60	1.60	*1.60	2.00	2.00	DIV.
.4	.1	2.1	2.6	d 2.7	3.1	1.7	d 5.8	d18.8	d30.1	d 4.0	Wkg Cap $ Mil	

* Plus Stk Div 1/45 sh Western Gas



1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955
.64	.75	1.78	1.71	1.07	.85	1.47	1.48	1.40	1.16	1.52	E1.75
*.30	* .30	* .32½	*.38½	*.50	.50	.62½	.50	*.37½	.50	.50	.38
			Remington-Rand and Sperry Corp. Merged in 1955							*	

* Plus Stock Div.

EL PASO NATURAL GAS CO.

BUSINESS: El Paso Natural Gas owns and operates a pipeline system for transportation and sale at wholesale of natural gas, supplying customers in West Texas, Southern and Northwestern New Mexico, and in Arizona, and delivering gas at the Arizona-California boundary to distribution companies in California and Nevada which transport the gas from that point to connections with their distribution systems. Sales to public utilities for resale provide bulk of El Paso's consolidated revenues.

OUTLOOK: The Federal Power Commission has approved El Paso's application for a certificate of public convenience and necessity to increase the capacity of its system by 450 million cubic feet a day. Of this amount, 350 million cubic feet per day will be sold to California companies and 100 million cubic feet daily to other customers. Part of the gas supply required for this expansion will be imported from Canada and exchanged with Pacific Northwest Pipeline Corp. for gas in the San Juan basin. The company regards this connection to the potential reserves of Canada as an important development in relation to its gas supply. A measure of the company's growth may be gleaned from the fact that in 1930, total operating revenues were a mere $1,198,000. These were only $2,327,000 in 1935, less than $7 million in 1940 and less than $9 million in 1945. By 1950, total operating revenues had topped $41 million and kept moving up until they had reached $143,842,000 in 1954. For the 12-month period, ended November 30 last, gross amounted to $175,657,000 and net profit totaled $17,819,000, or $2.83 a common share. This compares with gross of $140,906,000 and net of $12,878,000, equal to $2.07 a share, in the preceding 12-month period. During the summer of 1954, the company and Western Natural Gas Co. sponsored organization of Rare Metals Corp. of America and the latter's wholly-owned subsidiary, Nevada Rare Metal Mining Co.

DIVIDENDS: The common stock is on a 50-cent quarterly basis. The company has estimated that 60% to 72% of common dividends are non-taxable as ordinary income. Further estimate will be made not later than March 10. Payments on the common have been maintained since 1936.

MARKET ACTION: Recent price of 48 compares with a 1955-56 range of High—54½, Low—39¾. At current price yield is 4.2%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1948	September 30 1955	Change
	(000 omitted)		
ASSETS			
Cash & Marketable Secur.	$ 3,107	$ 6,483	+$ 3,376
Receivables, Net	2,675	16,724	+ 14,049
Materials & Supplies	1,606	12,718	+ 11,112
Other Current Assets	138	2,248	+ 2,110
TOTAL CURRENT ASSETS	7,526	38,173	+ 30,647
Properties & Plant	159,108	641,343	+ 482,235
Investments	2,770	16,270	+ 13,500
Other Assets	609	6,188	+ 5,579
TOTAL ASSETS	$170,013	$701,974	+$531,961
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 10,244	$ 67,325	+$ 57,081
Other Liabilities	705	10,505	+ 9,800
Res. for Deprec., Amort. & Depl.	13,581	93,743	+ 80,162
Other Reserves	—	247	+ 247
Long Term Debt	114,168	329,987	+ 215,819
Preferred Stock	10,675	78,595	+ 67,920
Common Stock	8,784	92,943	+ 84,159
Surplus	11,856	28,629	+ 16,773
TOTAL LIABILITIES	$170,013	$701,974	+$531,961
WORKING CAPITAL	d$ 2,718	$ 29,152	+$ 26,434
CURRENT RATIO	—	—	—

SPERRY RAND CORP.

BUSINESS: Sperry Corp. and Remington Rand, Inc. merged in 1955. The surviving entity has the benefit of the technical knowledge, skills, facilities and financial resources of the two companies, each a leader in different fields of electronics and in various other fields. Sperry is a leader in production of electronic, electro-mechanical and hydraulic devices, servo mechanisms, gyroscopic instruments, and related items, and of systems combining these devices. Remington Rand is a pioneer in electronics and automation as applied to business systems.

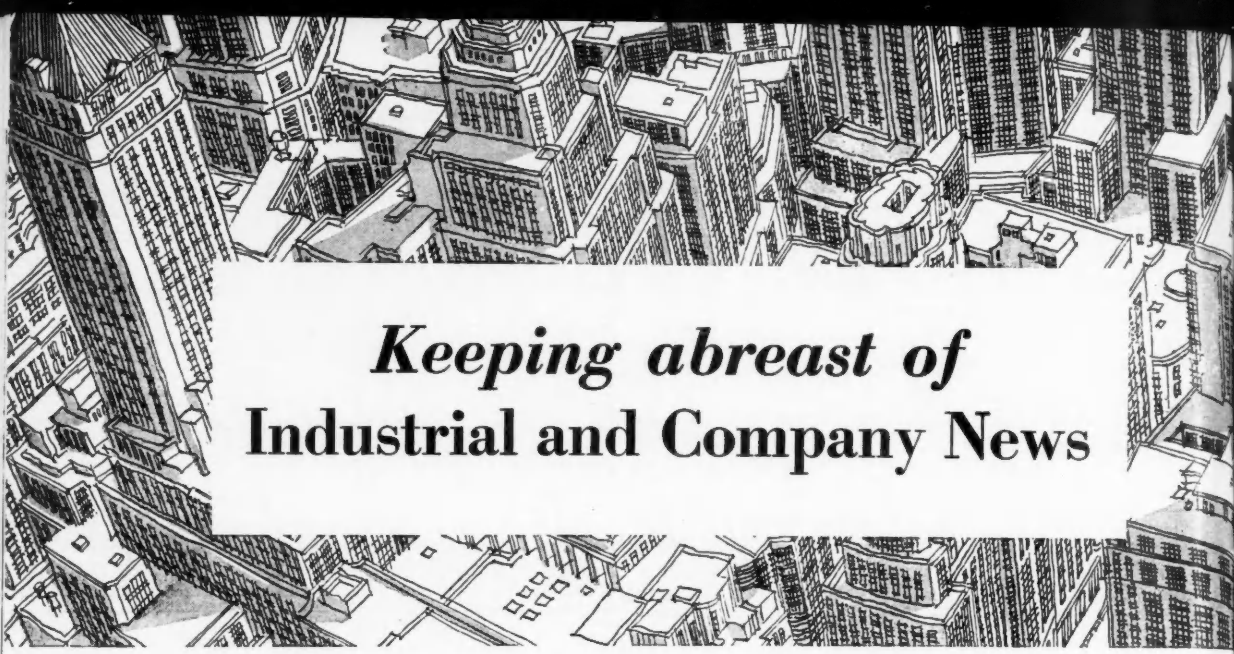
OUTLOOK: Sperry Rand earned $9,514,000, equal to 37 cents a common share, on sales of $159,571,000 in the quarter that ended September 30, 1955. This compares with net of $9,028,000, or 35 cents a share, and sales of $157,797,000 for the preceding quarter ended June 30, 1955, of the predecessor companies. The companies merged July 1. No figures are available for comparing combined earnings of the predecessor companies in the September 30 quarter of 1954 with those for the like months of 1955. Sperry earned $28.5 million, equal to $6.23 a share, on sales of $440.9 million in the fiscal year ended December 31, 1954. Remington Rand earned $16.1 million, or $3.03 a share, on sales of $258.4 million in its fiscal year ended March 31, 1955. Volume and net of Sperry Rand for the six months to September 30, 1955, were materially affected by strikes. As a result, shipments for the fiscal year that ends March 31, 1956, will be somewhat lower than would otherwise have been the case. However, the second six months of this fiscal year should show higher shipments and profits than in the first six months of the year. Prospects are for continuing strong demand for the company's products and services, military and commercial both. Over the longer term, Sperry Rand should derive substantial benefits from the consent decree obtained by the Government in the International Business Machines Corp. case.

DIVIDENDS: An initial payment of 16 cents on the common stock was made on September 30. Stockholders received 20 cents on December 31.

MARKET ACTION: Recent price of 24 compares with a 1955-56 range of High—29⅝, Low—21. At current price, assuming an 80-cent annual payout, yield is 3.3%.

PRO FORMA CONSOLIDATED BALANCE SHEET

	December 31 1954
	(000 omitted)
ASSETS	
Cash & Marketable Secur.	$ 65,961
Receivables, Net	115,434
Inventories	178,001
Other Current Assets	4,122
TOTAL CURRENT ASSETS	363,518
Plant & Equipment	113,087
Invest. Adv. etc.	4,339
Deferred Charges	2,978
TOTAL ASSETS	483,922
LIABILITIES	
Debt Payable	$ 35,237
Accounts Payable	25,970
Tax Reserve	50,042
Accruals & Other Liab.	37,948
TOTAL CURRENT LIABILITIES	149,197
Reserves	970
Minority Interest	1,231
Funded Debt	116,849
Preferred Stock	2,556
Common Stock	12,222
Surplus	200,897
TOTAL LIABILITIES	$483,922
WORKING CAPITAL	$214,321
CURRENT RATIO	2.4



Keeping abreast of Industrial and Company News

Equitable Life Assurance Society, a substantial holder of senior bonds of **Missouri-Kansas-Texas Railroad Co.** (Katy), has asked the Interstate Commerce Commission not to approve the carrier's proposal to exchange prior lien bonds and other debt securities for 667,005 shares of cumulative preferred stock which has accumulated dividends of $154 per share, totaling $102,718,770. The railroad filed a petition for approval on February 6. Equitable argues that the "proposed exchange plan, which would use senior debt securities to pay a substantial portion of the preferred claims, would give the railroad an unsound debt structure. It would also dilute the security for the railroad's presently outstanding prior lien bonds." Equitable owns $7,059,000 principal amount of Katy first mortgage 4s, due 1990, and $2,971,000 of three series of Katy prior lien bonds, amounting roughly to one-seventh of the total of $20,891,000 prior lien bonds outstanding. Under the proposed plan preferred shareholders would receive prior lien bonds which would be secured by the same property and rank with those presently outstanding. The proposed exchange plan, in view of Equitable, is more favorable to common stockholders and attempts to satisfy the preferred holders at the expense of the holders of Katy's first lien issues.

Soft coal price boosts, ranging from 15 cents to 50 cents a ton, go into effect on April 1. The increases are designed to offset mounting production costs, including an 80-cent a day wage rise which miners get on that date. These markups, for an industry long placed in the "depressed" category, follow price advances of 25 cents to 50 cents in September of 1955 after the mine workers had obtained pay rises of $1.20 per day. Rising coal prices contrast with the trend which got underway in 1948. At that time, falling prices brought a succession of price dips. Coal's resurgence reflects its greatly expanded use for electric power generation, the high rate of steel output and expanding exports.

American Colortype Co. year end adjustments may result in a net loss of about $385,000 for 1955 for the consolidated operations of that company. Indicated adjustments are attributable largely to losses incurred during the latter part of 1955 at New Jersey plants to effect discontinuance of such operations and transfer activities of the Gabriel division to Chicago. Operations of the letter press and gravure departments at Allwood, N. J., were gradually reduced and discontinued by year end. The offset printing division in New Jersey has been sold. Gabriel, which had been conducting its activities at Allwood, has been transferring operations to Chicago, where they will be more closely associated with the tag, seals and greeting-card divisions. Gabriel has been expanding its business to provide a line of products for the chain trade as well as jobbers. On February 17, directors declared the regular quarterly dividend of 25 cents on the common, payable March 15, to stockholders of record March 1.

Cutbacks in automotive production are already having an impact far beyond the assembly lines of the motor-car manufacturers. It has triggered a reduction in the work week at **Timken Roller Bearing Co.** About 1,000 employes have been put on a four-day week due to a decline in demand for bearings from the auto-makers. With car inventories in excess of 800,000 units, the expectation is that auto output will continue on a curtailed scale for the next few weeks, at least. A measure of how well other lines are holding up also is provided by Timken. While some 15% of its labor force in four Ohio cities is affected by reduced demand from the auto industry, other phases of Timken's business, including production of bearings for other types of rolling equipment, show no signs of a letup.

Ford Motor Co. is readying a $7,375,000 expansion program in Europe, covering Holland, Belgium, Denmark and Sweden. This latest expenditure will bring Ford's total postwar spending outside the United States on new plants, facilities and tools to more than $500 million. Ford's total world spending since World War II will rise to $4.2 billion when all projects now underway are completed. This includes the $3.7 billion (*Please turn to page* 708)

THE EDITORS' INVESTMENT CLINIC

Case No. 18

The Meaning of Par Value

Innumerable investors in common stocks are stumped by a type of news item, of which the following is a common example: "Directors of the corporation proposed a 5-for-1 split of the common stock, which calls for an increase in the authorized shares to 1.5 million of \$2 par value from the present 300,000 shares of \$10 par value." The question often arises: "What does par value mean?"

The answer, of course, is that to the average investor "par value" is not particularly meaningful. Many companies set it at the price at which the stock was offered while others set forth a nominal value. Par value is printed on the face of stock certificates, but it has no effect on the market value of the holdings. Par value in a balance sheet, no matter how arrived at, is an artificial one.

Affects Transfer Tax

About the only concern of the stockholder in the matter of par value is the bearing it has on Federal taxes for which the investor is liable when the shares are sold. The lower the par value, the lower the transfer tax. This explains the action of the hypothetical company alluded to in the first paragraph in reducing the par value.

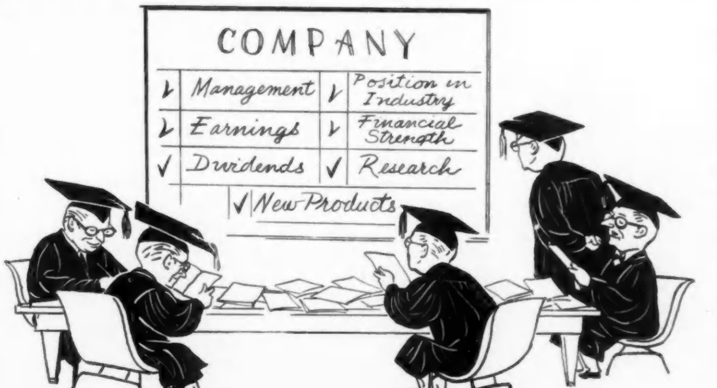
Government transfer levy is 6 cents per share on \$100 par value issues, when these are sold at \$20 a share or higher, and 5 cents when they are sold at less than \$20. Thus, 100 shares of a stock having a \$100 par value, sold at or above \$20 per share, would mean \$6 in taxes. If the selling price were under \$20, then the total tax liability would be \$5. On a \$50 par stock, sold at \$20 or above, the tax would be \$3 and below \$20 it would be \$2.50 on 100 shares.

Many investors, of course, hold equities that have no par value. Such stocks are treated (for the purpose of taxes) as having \$100 par value.

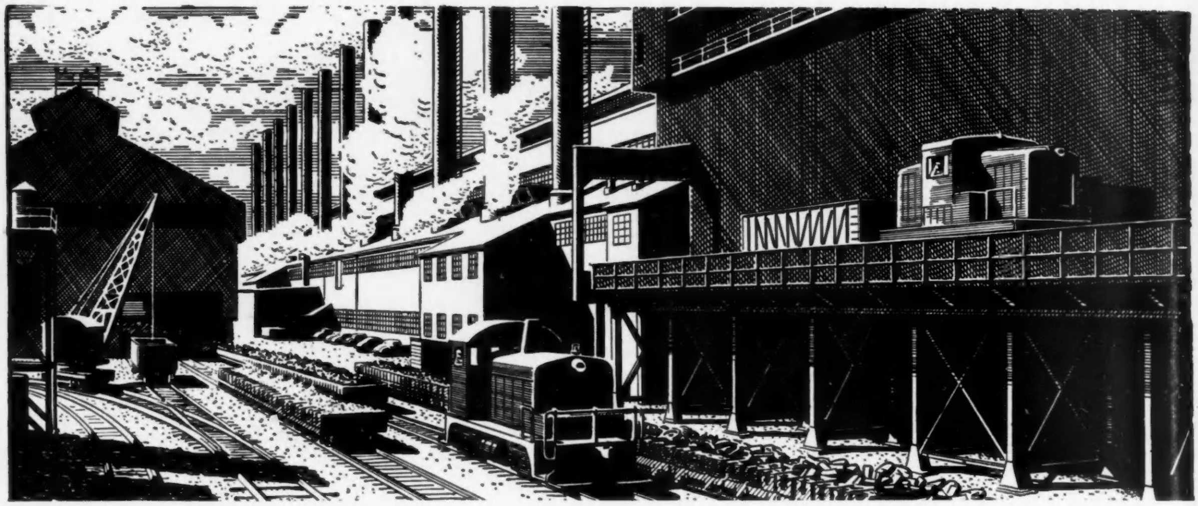
The New York Stock Exchange listings range from issues with par value of 10 cents to \$100. However, no-par stocks account for 21.8% of the issues listed. Most popular stated par value is \$1, accounting for 18% of all listed issues. Next on the list is \$100 par value, with a 17.6% ratio. Many issues have par values of odd amounts, usually the outgrowth of stock splits. Stocks with par values of curious amounts include: Anderson, Clayton & Co., Inc., \$21.80; United States Steel Corp., \$16.66⅔; General Motors Corp., \$1.66⅔, and Consolidated Textile Co., Inc., 10 cents. American Telephone & Telegraph Co., dean of the investment standbys, carries a stated par of \$100.

In addition to the Federal tax on stock transfers, quite a few states impose similar levies. Laws, naturally, vary from state to state. In the case of New York State, par value does not enter into the tax-collector's calculations. That state bases its impost on the market value of the transaction.

As will be deduced from the foregoing, par value is all but meaningless to the purchaser of common stocks. However, it has an important relationship in the matter of preferred stock issues, where the dividend rate is given in percentage. It determines the money rate of the payment. As an illustration, a 5% preferred stock of \$100 par value would mean a disbursement of \$5 per year. A 5% preferred, \$50 par, would indicate an annual dividend payout of \$2.50.



From the standpoint of the holder of common equities, however, it matters only slightly what par value is attached to his shares. Stocks of no par value can be just as sound or just as unsound as issues that carry a stated par value. Investments, to be successful over the long run, must be based on something more substantial than par.



FOR PROFIT AND INCOME

Support

The following stocks have held up well in periods of market softness so far this year, and are continuing to show above-average strength—in some cases outstanding—up to this writing: American Steel Foundries, American Brake Shoe, Beckman Instruments, Blaw Knox, Bridgeport Brass, Caterpillar Tractor, Celotex, Chain Belt, Chicago Pneumatic Tool, Cincinnati Milling Machine, Corn Products, Continental Oil, Dow Chemical, Emerson Electric, Fruehauf Trailer, Gardner Denver, General Electric, Gillette, Great Northern Paper, Hershey Chocolate, Jaeger Machine, Lone Star Cement, Marathon, McGraw-Hill, National Supply, Owens-Corning Fiberglas, Pittston, Reynolds Tobacco, Sangamo Electric, Shell Oil, Square D, Union Tank Car, Tide Water Oil and United Shoe Machinery. Despite the exceptions, note that the list runs rather heavily to capital-goods issues.

Secondaries

We have commented previously on the improved outlook of the cigarette industry, and recommended American Tobacco and Reynolds Tobacco as the best stocks in the group. What about the others? Liggett & Myers ranks third in the industry. It earned $6.46 a share in 1955, against 1954's $5.30; and should fare moderately better this year. Including a $1 extra, dividends have been on a $5 basis for some years. Yield at present price of 68 is about 7.4%. The fact that it is so high reflects relatively narrow coverage, improbability of higher payments, a none-too-good operating margin and a so-so competitive position. The stock is considerably less attractive than American or Reynolds. It is worth holding by people interested in a high yield. Lorillard is an unimpressive situation as regards profit margin, competitive position and prospects. We suggest a switch to Reynolds Tobacco or—for more speculatively-inclined holders of Lorillard—to Philip Morris. The latter has lost ground to the leaders in recent years, but is making a fairly good comeback now. Profit improved last year to an estimated $3.63 a share or so, from 1954's $3.53. It may well reach $4.25 to $4.50 this year. The stock is on a $3 dividend, yielding nearly 7% at current price of 44 in a postwar range of 71-25¼. Possibilities for further recovery appear substantial.

Relief

Particularly in the case of high-leverage railroads, the question of freight-rate relief, as an offset to higher wage costs, is of decisive importance. Illustrating the point, January net income of Baltimore & Ohio was the lowest since July, 1952. Compared with a year ago, gross revenue was up about 23%, net income off about 37%. The road's January carrydown of gross to net was less than 2%. There are times when you can make money in high-leverage rail stocks, times when you can lose it. Since rate relief always applies to the whole industry, there is the most "velvet" in it for strong, prosperous roads which need it least or could get by comfortably without it. That is most generally so of leading Southern and Western systems.

10 Times

Some sound speculative stocks

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1955	1954
Lehigh Portland Cement Co.	Year Dec. 31	$5.92	$4.19
Pittsburgh Plate Glass	Year Dec. 31	6.26	4.18
Anderson-Prichard Oil	Year Dec. 31	6.07	4.00
American Can	Year Dec. 31	3.04	2.53
Johnson & Johnson	Year Dec. 31	5.38	4.45
Allegheny Ludlum Steel	Year Dec. 31	8.25	2.30
General Motors	Year Dec. 31	4.30	3.03
Caterpillar Tractor	Year Dec. 31	4.04	2.91
Union Carbide & Carbon	Year Dec. 31	4.83	3.10
United States Steel	Quar. Dec. 31	1.80	.96

which are priced around 10 times or less—mostly less—likely 1956 earnings per share are: American Airlines, American Steel Foundries, American Viscose, Beaunit Mills, Bridgeport Brass, Chicago Pneumatic Tool, Eaton Manufacturing, Emerson Electric, Mueller Brass, Masonite, Revere Copper & Brass, Sylvania Electric, United Air Lines and U. S. Plywood.

Others

Issues which can be called good-medium-grade, and are priced around or below 10 times probable earnings this year, include Borg-Warner, Air Reduction, Inland Steel, Pure Oil, Standard Oil of Ohio and Timken Roller Bearing. Few income stocks are similarly priced. Among them are American Tobacco, Beneficial Finance, Penick & Ford and Reynolds Tobacco. All widely-known first-rank growth stocks are priced at high multiples of earnings—many of them at 15 to 20 or more times earnings. Two less-well-known secondary growth stocks — but equities of strongly-situated, medium-sized companies—which are still available at less than 10 times indicated earning power are McGraw-Hill and Outboard Marine & Manufacturing. We have recommended both before. That does not make them less interesting for purposes of new readers, as long as they remain undervalued.

Outboard

Of interest to new readers, and to subscribers holding the stock, Outboard Marine, by far the leading maker of outboard motors, is in for a whale of a year. Use of outboards, both for recreational and utility boating, is in a very strong uptrend. Equally important, the demand trend is toward higher-priced, higher horsepower motors. Present 30-horsepower, semi-noiseless, self-starting outboards are a far cry from the noisy, cranky, 3 horsepower putputs comprising the bulk of the market only a few years ago. This efficient, well-integrated company —it makes nearly all of the components used in its Evinrude and Johnson motors and in motors made for distribution by big retailing concerns under their own brand names—earned a record $3.68 a share in the fiscal year ended last September 30, a gain of over 44% from the prior year's $2.55. In the seasonally slack quarter ended December 31, first quarter of the current fiscal year, sales showed a year-to-year gain of nearly 87%, earnings a gain of more than 131% to 90 cents a share, from 39 cents a year earlier. Facilities are being expanded again to meet record demand. It is hard at this point to see how the company can fail to earn something like $4.50 to $5 a share this year, calling for a boost in the conservative $1.60 dividend. The stock is currently at 41, down from earlier high of 47. Yield of 3.9% is not bad for a growth stock which is in line for higher payments not too far ahead. The price is roughly eight to nine times likely earnings this year, which strikes use as quite moderate valuation.

15 Times

A different proposition is Pepsi-Cola. In sales, earnings and dividends, the company has made by far the best showing in the soft-drink field in recent years, under new top management. It probably earned close to $1.65 a share for 1955, against 1954's $1.07. It might earn around $2 a share or so this year. At 22, on a regular $1 dividend which may well be supplemented with a yearend extra, yield is over 4.5%; and the price is around 11 times likely earnings. The stock is not "statistically cheap"—but in each of the 13 years 1955-1943 it reached highs of 15 or more—often much more —times earnings, reflecting a "habit" based on speculative popularity. There is no analytical answer to the question whether the habit has now been given up. If not, the stock will in due time rise to around 30 or more.

Retailing

Despite record consumer income and spending, market performance of retail-trade stocks of virtually all types has been disappointing to holders for some time. Many have been marked down considerably from their 1955 high. Likely reasons: (1) increasingly sharp price competition in all branches, which could put a brake on profits; (2) the threat, still only a small cloud on the horizon, that discount selling, long standard practice with appliances, might spread to more and more items, possibly including some types of soft goods; (3) the possibility that the minimum-wage law may be extended to retail employes sooner or later, thus raising costs of many stores, although it seems unlikely this year; and (4) the fact that the rate of gain in over-all retail sales has tended to slacken in recent months. You should review your holdings of retail stocks with a critical eye, especially in the case of issues of secondary companies. As a general rule, under present conditions, we would rather reduce holdings on rallies than add to them on market sell-offs.

Building

Pessimism on the 1956 outlook for residential building probably has been overdone; and most building-materials stocks are well down from their 1955 highs. The Federal agencies involved have moved to reverse the moderate downtrend in home starts by restoration of former maximum maturities on mortgages guaranteed by the FHA and the VA, as well as by other measures. Mortgage money gives some evidence of easing. Residential contract awards in January made an improved showing and were above the year-ago level, according to the F. W. Dodge Corp. report. Recent surveys in principal areas of the country have found development builders raising their sights on this year's home-building prospect. Sound building stocks should be held for price recovery. Some selected issues appear to have possibilities for above-average appreciation.

Gypsum

Gypsum-based building materials hold a relatively good posi-

(*Please turn to page* 704)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

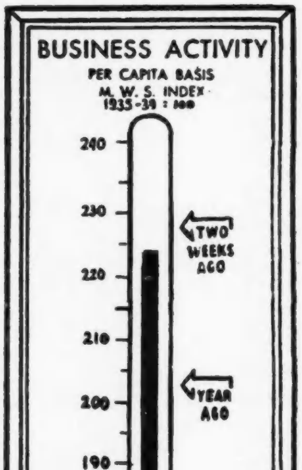
		1955	1954
Canada Dry Ginger Ale	Quar. Dec. 31	$ .42	$ .51
Nash., Chatt. & St. L. Rwy.	Year Dec. 31	6.80	12.63
Cincinnati Milling Machine	Year Dec. 31	2.46	5.36
Monarch Machine Tool	Year Dec. 31	.08	3.16
Int'l. Mineral & Chemical	6 mos. Dec. 31	.11	.78
Republic Natural Gas	6 mos. Dec. 31	.67	.74
Bristol-Myers Co.	Quar. Dec. 31	.68	.91
Marquette Cement Mfg. Co.	Dec. 31 Quar.	.34	.38
Warner Bros. Pictures	Quar. Nov. 26	.37	.48
Baltimore Gas & Electric	Quar. Dec. 31	.42	.51

The Business Analyst

WHAT'S AHEAD FOR BUSINESS?

By E. K. A.

The rise, last month, in the price of refined copper to the highest level since the War Between the States and sporadic boosts in prices of a variety of steel items have raised anew the specter of inflation. Inevitably, there will be more hikes in a variety of fields as industry seeks to compensate itself, at least in part, for spiraling wage and material costs. The minimum wage now is $1 per hour (previously 75 cents), labor unions are girding for another round of wage increases and the railroads feel a need for rate raises. Prices of soft coal, as another example, are scheduled to rise on April 1.



While domestic conditions are not strictly comparable with the United Kingdom, steps taken by that country in recent days to cope with the inflationary spiral provide a clue to what's ahead for American business, assuming a continuance of the lack of restraint by key segments of the economy—an aggressiveness that has made the wage-and-material burden plenty painful for innumerable companies and left them highly vulnerable to any setback in the current operating level.

In Britain, as in this country, corporate earnings have been running at record levels. And, also reminiscent of this country, hundreds of thousands of jobs for skilled personnel have gone unfilled. This situation set the stage for the British to give the screw another turn — a far tighter twist than anything undertaken by our own monetary authorities. That country has instituted a further rise of a full point in the bank rate (which corresponds to the rediscount rate of American regional reserve banks), bringing it up to 5.5%. In this country, the interest rate paid by member banks on money borrowed from the Federal Reserve System is 2.5%.

In addition to the advance in the bank rate, Britain's new Chancellor of the Exchequer, R. A. Butler, proposes to increase the down-payment on instalment purchases. The new restrictions will raise the down-payment on a wide range of goods from 15% and 33$^{1}/_{3}$% to 20% and 50%, respectively. Maximum repayment period has been set at 24 months. Capital expenditures will be shaved in a number of directions. Government projects are to be cut back by £20 million.

As hitherto noted, conditions in the two countries are not precisely comparable, but the intelligent and courageous action of the Conservative government of Britain will not be completely lost on business folk and investors in this country. Part of the new program in Britain calls for cutting bread and milk subsidies. This action set up cries from the Socialist opposition of "Resign!" A similar chorus has greeted Ezra Taft Benson, our Secretary of Agriculture, for his efforts to trim farm subsidies.

Reduced subsidies in Britain will save that country some $186 million dollars per year. The action will mean a rise of about 1 cent in a loaf of bread or a quart of milk. And the furor stirred by Socialist foes, who have small attachment to fiscal responsibility, will not be lost on American conservatives who, these many years, have been striving for economic stability against an opposition that always counts voters and never counts costs.

In our own country, we have witnessed a reluctance to crack down on "crazy credit" that has resulted in the automotive industry, for one, "borrowing" some million customers from one year to achieve dizzy heights of production and sales in the preceding year. The industry now is working part-time, thanks to a record inventory in the hands of dealers. We also have witnessed the imposition of mild curbs, imposed last summer, to keep prospective home purchasers, who had scant wherewithal, from bidding up the prices of homes. And even those mild curbs now have been relaxed. It would appear that a disdain for fiscal responsibility has spread far beyond Socialist ranks.

The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—Investors in fixed-income securities have been watching Federal Reserve action with special care in recent weeks for possible clues that might indicate a change in tight money policy. Short-term money rates have eased since the end of last year and bond prices were higher in mid-February than they had been two months earlier but Central Bank action did not seem to figure in this improvement. The Federal Reserve has sold substantial quantities of Government securities so far this year in order to mop up funds released by the usual seasonal decline in demand for loans, yet money rates eased anyway. Nor is any change in Central Bank policy revealed by the condition statements of the reporting member banks, which show that their free reserves in mid-February were even more restricted than they had been in December. It is evident from these considerations that the better market tone did not stem from any important relaxation of Federal Reserve policy. The better demand for fixed income securities was strongest in January, and was the result of increased investor expectation that a business downturn might be developing. Switching to bonds was buttressed, too, by general anticipation that the President would not again be a candidate for the high office. These ideas were somewhat chastened in early February, as signs increased that President Eisenhower might be receptive to the nomination after all, while recent inflationary developments in several areas have raised the possibility that credit might have to be tightened further. As a consequence, bonds lost their pep in the first half of last month although prices of seasoned investments were able to hold at close to previous levels.

The increased investor caution in the first half of February which has replaced the exuberance of the initial month of 1956, was most evident in the new issue market for tax-exempts, where a $50 million New York State Thruway issue, offered on February 15, was only half sold two days later. A smaller Chicago Waterworks issue met even tougher going. Looking at the supply side of the market, investors will be offered a wide choice of new issues in coming weeks. Borrowing by state and local governments will rise further and a sharp expansion in corporate financing is in the offering. By mid-February, definite offering dates had been set on no less than $432 million of corporate debt, according to compilations by Investment Dealers Digest, and the first large outpouring of these new issues is slated for early March. This will be an important factor tending to restrain bond market exuberance for some time to come.

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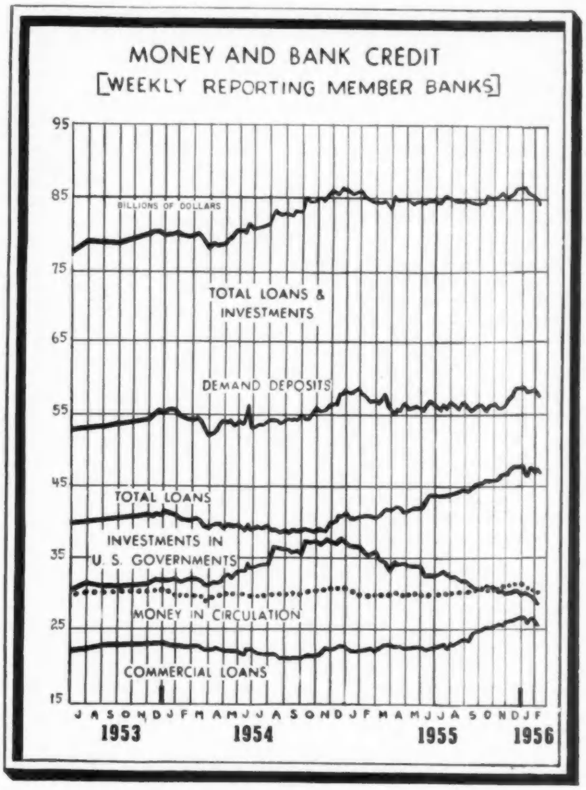
TRADE—Total retail sales have exhibited unusual stability in recent months with seasonally adjusted dollar volume almost unchanged since last Fall. There has, however, been a decided shift in consumer preferences with demand shifting from hard goods to nondurables. Automotive dealers and suppliers of building materials have been most affected by the change in demand.



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INDUSTRY—Industrial output remained unchanged in January, according to the Federal Reserve Board's seasonally adjusted index which stood at 144% of the 1947-1949 average, the same level reached in December. Auto assemblies were curtailed further with this component falling to 171 in January, from 187 in December and 196 in November. Nevertheless, output of most other products has not been adversely affected and steel production in early February was at 99% of capacity, a new high in actual tonnage produced.

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COMMODITIES—The Bureau of Labor Statistics' index of spot prices of 22 leading commodities fell 0.6% in the two weeks ending February 17, to close at 88.6% of

(Please turn to page 700)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Dec.	3.4	3.0	3.6	1.6
Cumulative from mid-1940	Dec.	611.8	608.4	571.7	13.8
FEDERAL GROSS DEBT—$b	Feb. 14	279.7	279.7	278.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Feb. 8	57.0	57.6	57.4	26.1
Currency in Circulation	Feb. 15	30.2	30.2	29.7	10.7
BANK DEBITS—(rb)**					
New York City—$b	Dec.	68.7	68.2	62.6	16.1
343 Other Centers—$b	Dec.	109.6	110.9	103.2	29.0
PERSONAL INCOME—$b (cd2)	Dec.	315.0	312.0	293.4	102
Salaries and Wages	Dec.	216	215	199	99
Proprietors' Incomes	Dec.	50	50	49	23
Interest and Dividends	Dec.	30	28	27	10
Transfer Payments	Dec.	17	17	17	10
(INCOME FROM AGRICULTURE)	Dec.	15	15	15	3
POPULATION—m (e) (cb)	Jan.	166.7	166.5	163.9	133.8
Non-Institutional, Age 14 & Over	Jan.	118.1	118.0	116.9	101.8
Civilian Labor Force	Jan.	65.8	66.6	63.5	55.6
Armed Forces	Jan.	2.9	2.9	3.2	1.6
unemployed	Jan.	2.9	2.4	3.3	3.8
Employed	Jan.	62.9	64.2	60.2	51.8
In Agriculture	Jan.	5.6	5.9	5.3	8.0
Non-Farm	Jan.	57.3	58.3	54.9	43.2
Weekly Hours	Jan.	40.9	41.2	41.3	42.0
EMPLOYEES, Non-Farm—m (lb)	Jan.	49.5	51.3	47.7	37.5
Government	Jan.	7.0	7.3	6.8	4.8
Trade	Jan.	10.8	11.7	10.4	7.9
Factory	Jan.	13.2	13.5	12.5	11.7
Weekly Hours	Jan.	40.6	41.3	40.2	40.4
Hourly Wage ($)	Jan.	1.93	1.93	1.84	0.66
Weekly Wage ($)	Jan.	78.36	79.71	73.97	21.33
PRICES—Wholesale (lb2)	Feb. 14	112.1	111.9	110.4	66.9
Retail (cd)	Nov.	208.5	208.9	207.6	116.2
COST OF LIVING (lb2)	Dec.	114.7	115.0	114.3	65.9
Food	Dec.	109.5	109.8	110.4	65.9
Clothing	Dec.	104.7	104.7	104.3	59.5
Rent	Dec.	131.1	130.9	129.4	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Dec.	15.8	15.8	15.1	4.7
Durable Goods	Dec.	5.7	5.7	5.3	1.1
Non-Durable Goods	Dec.	10.1	10.1	9.8	3.6
Dep't Store Sales (mrb)	Dec.	0.92	0.92	0.88	0.34
Consumer Credit, End Mo. (rb)	Dec.	36.2	35.1	30.1	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Dec.	29.3	28.3	24.8	14.6
Durable Goods	Dec.	15.6	14.7	12.0	7.1
Non-Durable Goods	Dec.	13.7	13.6	12.8	7.5
Shipments—$b (cd)—Totals**	Dec.	27.3	27.3	24.1	8.3
Durable Goods	Dec.	13.7	13.7	11.6	4.1
Non-Durable Goods	Dec.	13.6	13.6	12.5	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Dec.	82.1	81.6	76.9	28.6
Manufacturers'	Dec.	45.9	45.7	43.3	16.4
Wholesalers'	Dec.	12.3	12.3	11.5	4.1
Retailers'	Dec.	23.9	23.6	22.1	8.1
Dept. Store Stocks (mrb)	Dec.	2.7	2.6	2.5	1.1
BUSINESS ACTIVITY—1—pc	Feb. 11	224.0	226.1	203.9	141.8
(M. W. S.)—1—np	Feb. 11	287.9	290.4	256.7	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 699)
the 1947-1949 average. Components of the index to register declines included raw foodstuffs, off 0.8%, industrial materials, down 0.3% and metals which were 0.1% lower. Textiles gained 0.1% and fats and oils were up 0.8%.

* * *

The nation's **OUTPUT OF GOODS AND SERVICES** rose to a new high in the fourth quarter of 1955, reaching $397.3 billion, at seasonally adjusted annual rates. This was $5.3 billion ahead of the previous quarter and $30.2 billion more than a year ago. Biggest contribution to the latest increase was made by inventory investment with a rate of gain $3.9 billion bigger than the previous quarter. Consumer spending was only $1.5 billion higher in the latest period, with a drop in demand for durables cutting into increased outlays for soft goods and services. Businessmen increased their expenditures for durable equipment by $600 million while construction spending fell by $900 million, first drop for the latter sector since 1953. Government spending on the other hand was $1.6 billion higher.

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NEW CONSTRUCTION activity declined somewhat more than seasonally in January, with expenditures during the month amounting to $2,849 million. This was 10% under December and only 1% ahead of a year ago. Private residential building was one of the weak links in the latest month, declining 16% from December to a level 4% under January, 1955. Nonresidential building was 4% under the previous month but 20% ahead of a year earlier. Strongest component in this category was industrial construction with a 1% gain over December. Public construction outlays in January came to $723 million, a 6% drop from December and 3% under a year ago. Highway building was off 18% from the previous month but 6% better than in January, 1955.

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Orders for **NEW FREIGHT CARS** plummeted in January, dropping to 1,818 units from 42,278 in December and 51,066 new orders in November. The uprush in orders late last year represented a bunching of

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	Jan.	144	144	132	93
Mining	Jan.	129	129	120	87
Durable Goods Mfr.	Jan.	160	161	145	88
Non-Durable Goods Mfr.	Jan.	130	130	121	89
CARLOADINGS—t—Total	Feb. 11	684	681	644	933
Misc. Freight	Feb. 11	354	352	336	379
Mdse. L. C. I.	Feb. 11	61	60	63	66
Grain	Feb. 11	45	44	44	43
ELEC. POWER Output (Kw.H.) m	Feb. 11	11,343	11,540	9,922	3,266
SOFT COAL, Prod. (st) m	Feb. 11	10.2	9.8	8.7	10.8
Cumulative from Jan. 1	Feb. 11	60.9	50.7	52.0	44.6
Stocks, End Mo.	Dec.	68.4	70.3	69.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Feb. 11	7.0	7.1	6.7	4.1
Gasoline Stocks	Feb. 11	188	183	174	86
Fuel Oil Stocks	Feb. 11	38	39	47	94
Heating Oil Stocks	Feb. 11	81	84	76	55
LUMBER, Prod.—(bd. ft.) m	Feb. 11	246	236	257	632
Stocks, End Mo. (bd. ft.) b	Nov.	8.6	8.6	9.2	7.9
STEEL INGOT PROD. (st) m	Jan.	10.8	10.5	8.8	7.0
Cumulative from Jan. 1	Jan.	10.8	117.0	8.8	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Feb. 16	268	540	194	94
Cumulative from Jan. 1	Feb. 16	2,934	2,666	2,068	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Feb. 11	247	406	246	165
Cigarettes, Domestic Sales—b	Nov.	32	33	29	17
Do., Cigars—m	Nov.	581	551	554	543
Do., Manufactured Tobacco (lbs.)m.	Nov.	18	17	16	28

PRESENT POSITION AND OUTLOOK

demand in order to beat the anticipated expiration of accelerated amortization allowances on capital expenditures. As a result, new orders this year may make a poor showing. Deliveries of freight cars rose to 4,199 in January, up from 3,796 in December and 2,008 a year ago. With deliveries far ahead of new orders, unfilled order backlogs fell to 144,946 units on February 1 from 147,320 a month earlier. They were still far ahead of the orders for 18,395 cars which were on the books on February 1, 1955.

* * *

GOLD AND DOLLAR RESERVES of foreign countries rose by $1.6 billion during 1955, with almost 40% of the gain being derived from foreign gold production and other sources outside of the United States. The remainder originated from transactions with this country. Biggest gains in reserves were made by Belgium, France, the German Federal Republic and Japan. On the other hand, the sterling-area bloc suffered a substantial reduction in gold and dollar holdings.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

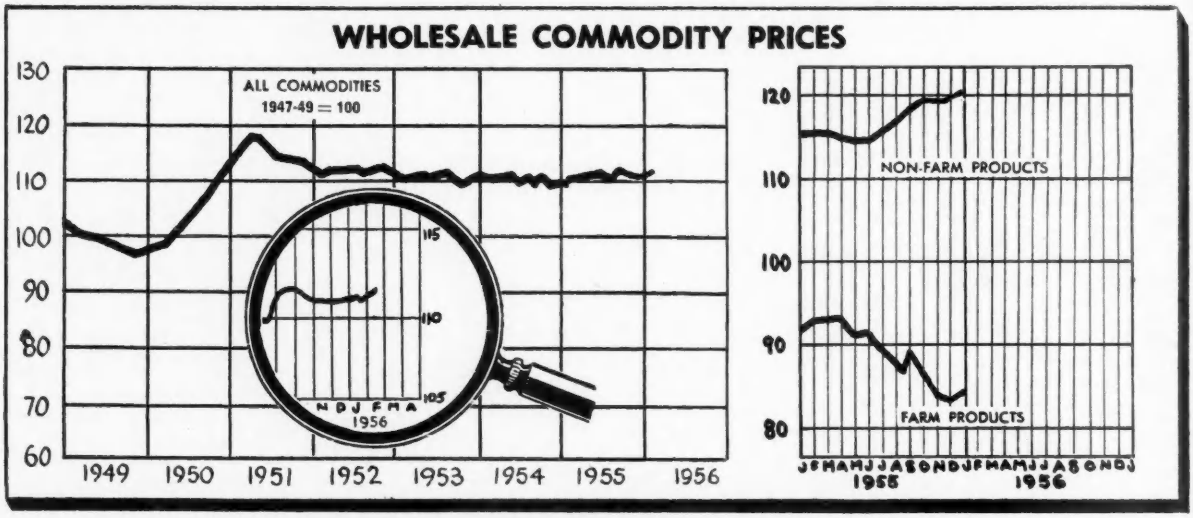
No. of Issues (1925 Cl.—100)	1955-56 Range High	1955-56 Range Low	1956 Feb. 10	1956 Feb. 17
300 Combined Average	329.8	282.0	318.0	325.2
4 Agricultural Implements	348.7	264.9	310.7	317.3
3 Air Cond. ('53 Cl.—100)	116.0	87.0	100.3	102.8
9 Aircraft ('27 Cl.—100)	1205.6	871.7	1088.5	1112.5
7 Airlines ('27 Cl.—100)	1263.6	971.2	971.2	992.1
4 Aluminum ('53 Cl.—100)	388.1	191.1	337.1	359.3
6 Amusements	180.6	147.0	156.6	159.7
9 Automobile Accessories	368.6	308.3	334.5	338.1
6 Automobiles	55.8	44.3	48.1	48.6
4 Baking ('26 Cl.—100)	30.6	27.8	28.1	27.8
3 Business Machines	930.6	657.4	831.5	858.3
6 Chemicals	598.4	466.6	556.5	574.5
4 Coal Mining	21.6	14.8	20.3	21.6H
4 Communications	116.6	100.7	103.9	107.0
9 Construction	127.3	106.4	114.7	119.5
7 Containers	769.8	675.1	739.3	739.3
7 Copper Mining	333.4	222.2	292.6	310.5
2 Dairy Products	127.0	111.7	111.7	111.7
6 Department Stores	100.2	80.0	86.2	87.1
5 Drugs-Eth. ('53 Cl.—100)	178.2	129.6	161.5	146.7
6 Elec. Eqp. ('53 Cl.—100)	186.2	151.3	180.7	186.2H
2 Finance Companies	651.1	565.1	589.8	583.9
6 Food Brands	300.6	256.2	284.0	286.9
3 Food Stores	163.7	137.7	157.6	160.8

(Nov. 14, 1936 Cl.—100)	High	Low	1956 Feb. 10	1956 Feb. 17
100 High Priced Stocks	220.1	180.6	210.9	215.6
100 Low Priced Stocks	392.5	343.5	381.3	390.9
4 Gold Mining	823.4	649.1	778.9	823.4H
4 Investment Trusts	157.1	140.8	152.4	152.4
3 Liquor ('27 Cl.—100)	1155.7	961.3	974.7	995.0
9 Machinery	395.8	317.7	385.8	393.5
3 Mail Order	234.1	159.3	204.1	206.3
4 Meat Packing	138.0	112.8	133.1	135.7
5 Metal Fabr. ('53 Cl.—100)	187.0	155.9	183.3	187.0
10 Metals, Miscellaneous	452.3	358.2	404.7	421.9
4 Paper	1057.8	767.1	997.3	1028.8
22 Petroleum	726.9	590.0	713.1	713.1
21 Public Utilities	258.5	234.8	251.4	253.9
7 Railroad Equipment	90.6	73.4	85.2	87.0
20 Railroads	77.9	64.7	72.1	74.4
3 Soft Drinks	565.7	459.9	513.0	518.3
12 Steel & Iron	320.9	219.2	286.9	299.4
4 Sugar	68.8	56.1	63.1	63.8
2 Sulphur	964.0	813.2	877.2	895.4
11 Television ('27 Cl.—100)	47.3	40.1	40.1	41.4
5 Textiles	188.9	148.4	171.5	180.7
3 Tires & Rubber	182.7	137.8	173.6	177.2
5 Tobacco	95.7	81.9	92.9	92.9
2 Variety Stores	315.0	286.9	293.0	290.1
15 Unclassif'd ('49 Cl.—100)	158.1	141.9	144.8	149.3

H—New High for 1955-1956.

Trend of Commodities

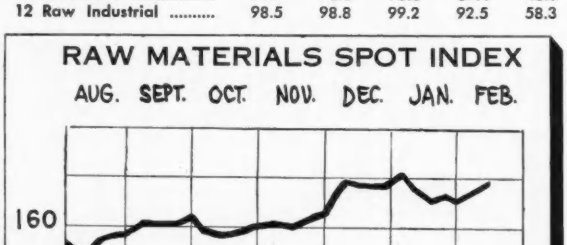
Domestic futures markets were mostly higher in the two weeks ending February 20, but such imports as cocoa, coffee and rubber were substantially lower. The Dow-Jones Commodity Futures Index added 0.27 point during the period to close at 154.01. On the legislative front, the farm bloc is trying to combine segments of the Administration's argicultural program with high price support provisions but the ultimate form that any aid to the farmer will take is still far from clear. May wheat advanced 7 cents in the fortnight ending February 20 to close at 216½. A tight situation has developed in Chicago cash wheat, primarily the result of the sizeable amount of the grain impounded under Government supports. This situation may not be relieved unless wheat prices rise enough to encourage redemptions from the loan or the CCC sells more freely form its holdings. In Europe, cold and stormy weather has damaged crops severely and this has encouraged buyers who expect that foreign demand for our wheat will rise sharply as a consequence. Corn futures were not responsive to the strength in wheat and the May option closed at 134¾ on February 20, unchanged from two weeks earlier. Although corn has been moving into the loan in heavy volume, a good deal of the grain is still in growers' hands. The CCC has been selling freely from its large stocks adding to the free supply of the grain. May cotton advanced 74 points in the period under review to close at 35.25 cents. Huge amounts of the crop have already been placed in the loan although the recent price advance may result in sizeable repossessions. Cotton can be bought from the CCC at 105% of parity and the amount such purchases has been growing.



U. S. DEPARTMENT OF LABOR INDEX OF 22 BASIC COMMODITIES
Spot Market Prices — 1947-1949, equals 100

	Date Feb. 17	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	88.6	89.1	88.7	91.3	53.0
9 Foodstuffs	75.9	76.5	75.2	89.4	46.5
12 Raw Industrial	98.5	98.8	99.2	92.5	58.3

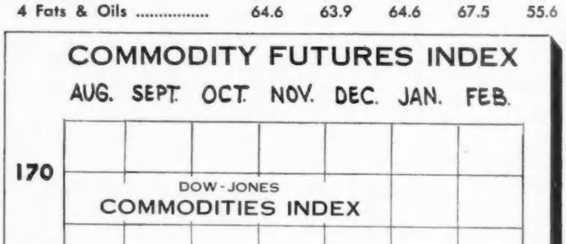
	Date Feb. 17	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	1941 Dec. 6
5 Metals	124.4	124.3	119.3	104.1	54.6
4 Textiles	81.4	81.3	80.9	86.3	56.3
4 Fats & Oils	64.6	63.9	64.6	67.5	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1955-6	1954	1953	1951	1945	1941	1938	1937
High	165.3	154.4	162.2	215.4	111.7	88.9	57.7	86.6
Low	153.6	147.8	147.9	176.4	98.6	58.2	47.3	54.6



Average 1924-26 equals 100

	1955-6	1954	1953	1951	1945	1941	1938	1937
High	173.6	183.7	166.5	214.5	95.8	74.3	65.8	93.8
Low	150.4	167.3	153.8	174.8	83.6	58.7	57.5	64.7

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities at* reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Parke, Davis & Co.

"I would appreciate your comments on Parke, Davis & Co., with breakdown of important product groups, and also please state cash position of the company and dividend payments."
W. C., St. Paul, Minn.

Parke, Davis & Co. reported increases of 12% in net sales and 36.5% in net earnings for 1955.

The world-wide pharmaceutical firm said 1955 net sales totaled $123,113,244, against $109,936,421 for 1954.

By major product category, the 1955 net sales were $77,999,627, general pharmaceuticals; $35,180,562, chloromycetin, a broad-spectrum antibiotic; $3,929,762, other antibiotics; and $6,003,293, surgical dressings.

By major trading area, the 1955 net sales were $78,472,840, United States and Canada; $18,259,933, other Western Hemisphere; $26,380,471, other world trade.

Net income in 1955 was $14,322,015, compared with $10,493,502 in 1954. This equaled $2.92 a share for last year, compared with $2.14 a share in 1954.

The pharmaceutical firm's earnings before taxes on income in 1955 totaled $28,722,015, compared with $19,093,502 in 1954. Thus, in 1955, the company's provision for income taxes ($14,400,000, or $2.94 a share), amounted to more than its net earnings after taxes ($14,322,015, or $2.92 a share).

Dividends in 1955 were $1.40 a share, the same as paid in 1954.

The company reported $14,279,025 cash in banks and on hand at the end of 1955, compared with $13,028,880 in 1954; and $14,663,425 in marketable securities in 1955, compared with $6,087,509 in 1954.

The stockholders' investment in Parke, Davis was $93,778,422 in 1955, compared with $86,821,646 in 1954.

One outstanding factor in the increased sales and earnings last year was the upswing in the use of chloromycetin. This increase in use of chloromycetin by physicians is of far greater significance to the company than the sales volume it represents. The appraisal and recognition of the drug's value are enhancing the company's reputation and prestige.

Prospects for 1956—the company's 90th year—appear favorable.

Clark Equipment Co.

"Please indicate the nature of products made by Clark Equipment Co. and give recent earnings, dividends and prospects."
T. S., Lyons, Mich.

Clark Equipment Co. gross sales in 1955 increased almost 50% to $150,700,000 to establish another all-time high. Clark Equipment is a leading manufacturer of materials-handling equipment, construction machinery and heavy automotive drive units for trucks, farm tractors and other off-the-road equipment. The previous sales record was $131,814,889, established in 1952. In 1954, Clark had gross sales of $101,883,120.

Earnings for 1955 were a record $9,500,000, almost 70% greater than the former record established in 1954.

Earnings are equivalent to $8.45 per share of common stock. Per share earnings for the previous year were $5.02.

The outlook for 1956—on the basis of current backlogs and incoming orders—indicates another year of operation and earnings at the same, or slightly higher, level, according to the president of the company.

Incoming orders the past three months have been at a consistently high level. Projections for each of Clark's principal divisions—Industrial Materials Handling Trucks, Construction Machinery and Automotive — forecast another good year.

Clark's Construction Machinery division sales in its first full year of operations were approximately $32 million. The division was established early in 1954, following acquisition of Michigan Power Shovel Co., which at that time had an annual volume of approximately $5 million.

The "Michigan" tractor shovel developed by Clark and first sold in May, 1954, has exceeded the company's most ambitious expectations.

Prospects in 1956 for the Construction Machinery division, from the standpoint of earnings as well as sales, are for an increase. Additional sales volume is expected for present items and for equipment introduced late last year and not reflected in 1955 sales figures. The division's earnings ratio should increase materially because most of the start-up expenses of a new business have been ended.

(*Please turn to page* 724)

Natural Gas Industry

(*Continued from page* 682)

ties about 22%. The gas utilities also sold three times as much in preferred and common stock as they did in 1954, the total amounts of "new money" securities being as follows:

Debt	$553	Million
Preferred Stock	73	"
Common Stock	146	"

In January this year the gas utilities did $138 million new financing compared with only $8 million for electric utilities — El Paso Natural Gas, probably the number one "growth company" in this industry, sold $132 million 1st 3¾% 1972 at par to institutions.

The average price of thirty natural gas common stocks on February 10th was 37.4 compared with 35.4 a year earlier, an increase of about 8% — as compared with an average price gain of only about 2% for 24 electric utility commons. Average dividend rates on leading gas stocks during the past year have increased nearly 10% as compared with about 6% for the electric issues. The gas stocks have therefore made a better showing than the electric issues. The regulatory position of the gas industry has improved considerably under the present Adminsitration, and it is to be hoped that this will continue despite the veto of the Harris-Fulbright Bill. With reasonable regulation the dynamic growth of the industry should continue almost unchecked.

(EDITOR'S NOTE: In his veto message on the natural gas bill, President Eisenhower, while seeing the need for legislation conforming to the basic objectives of the measure as passed by Congress, returned the bill without his signature because private persons, apparently representing only a very small segment of a great and vital industry, had sought to further their own interests by highly questionable activities. As the President stated: The type of regulation of natural gas producers which is required under the present law will, in the long run, limit supplies of gas, which is contrary to the national interest but especially to the interest of consumers. It is not expected, however, that new legislation will be acted upon until possibly next year which, should it include specific language protecting consumers in their right to fair prices, as recommended by the President, may encounter less opposition from Congressional members who voted against the recent bill. In the meantime, the natural gas industry should continue to move steadily forward, justifying confidence in its future.) —END

For Profit and Income

(*Continued from page* 697)

tion because (1) usage is more economical than that of most competing materials; and (2) relatively few producers, headed by U. S. Gypsum, supply the market. Price competition is not too severe and operating margins of leading makers are relatively good. Second largest in this field, National Gypsum is a progressive, expanding company which probably earned in the vicinity of $5 a share last year, a new peak. Allowing for new and/or improved facilities, that figure may well be approximated, if not moderately bettered, this year. The stock is at 48, against 1955 high of 59¾. Present indicated dividend policy is to pay $2 a year, plus 2% in stock, providing a fairly liberal over-all yield. The stock should be subject to a sizeable rebound; and, in any event, it is a better-than-average value for longer-term purposes.

Tile

The tile business is in the hands of a number of fairly small companies, mostly privately-owned. The old record in this field was unimpressive, but times have changed. The postwar building boom caught it with under-capacity. This has since been partly corrected, but strong demand is forcing further expansion. Growth of usage has for time been at a faster rate than that of most other building materials, reflecting the modern trend toward two or more bathrooms per home, and toward larger kitchens. Tile is being used more in commercial establishments; and has even gained a small toehold in some areas, notably Florida, as an exterior house-wall covering, due to the advantage of wide color choices, elimination of painting and ease of cleaning. American Encaustic Tiling is a relatively well-situated, efficient producer. About a 50% enlargement of capacity is scheduled for completion within this year. The management has estimated 1955 profit at about $1.57 a share, against 1954's $1.46, the small gain reflecting previous capacity limitations. Dividends totaled 70 cents last year, including a 10-cent yearend extra. The stock is not statistically cheap at 14, but could be an "interesting" speculation on important profit betterment stemming from relatively large expansion to serve a market which shows promise of growth exceeding that in general building activity.

—END

Plight of the Auto Independents

(*Continued from page* 691)

with a new engine that has one-third more power. If this economical and easy-to-park small car continues to make progress, it can eventually put the company into black ink, with a unique product not matched by any other American volume producer. The big danger is that one of the Big Three — possibly Ford — will introduce a competitive small car. In that case, it might be difficult for American Motors to reach the break-even point on the Rambler, and this investment might eventually have to be written off.

American Motors has reason to hope, however, that neither Ford nor General Motors will try to make it too difficult for the two independents to survive. Already, Attorney General Herbert Brownell has served notice that there is too much concentration in the auto industry. General Motors, possibly, is more vulnerable than Ford to political attack, for GM thus far this year has accounted for nearly 55% of the car market.

Here are the plus factors in the American Motors situation:

1. The company has a profitable Appliance Division. Kelvinator refrigerators, ranges, etc. seem to be making substantial progress.

(*Please turn to page* 706)

(*Continued from page* 704)
This division accounts for as much as one-third of the company's volume. In the four months ended January 31, unit output of appliances totaled 311,295, against 221,124 for the same period of last year.

2. Further progress is being made in cost-cutting through integration. For example, a new V-8 engine is being made for introduction this Spring in the Nash Statesman and Hudson Wasp models. Formerly dependent on Packard for its V-8 engines, American Motors says it will produce the V-8 at less cost than it has been buying engines from Packard. Similarly, Nash and Hudson cars are now built around the same body shell, thus saving at least $12 million to $20 million a year in tooling.

3. American Motors is working hard to arrest any deterioration of the dealer structure. Dealers have been given an incentive to intensify their sales effort by a schedule of graduated payments based on the number of cars sold. The company claims that the number of dealers has been increased.

Summing it up, it appears that American Motors has made progress, which could result in the company reaching the break-even point next year, if auto sales generally improve. But competition is so keen among the major producers that it will be hard for American Motors to increase its volume until the auto industry reaches the 10-million car volume peak that is now forecast for the years between 1960 and 1965. Even such a volume might not benefit American, because the sales increment might be divided among the Big Three.

Problems at S-P

Studebaker-Packard's situation in many respects resembles that of American Motors. Progress has been made in cutting costs yet, at the moment, S-P cannot be said to be likely to break even in 1956. The slump in retail sales made it necessary for the Packard Division to shut down early in February for at least two or three weeks.

In the first nine months of last year, Studebaker-Packard sustained a net loss of $28,939,912, on sales of $360.6 million. Of this loss $19.3 million was sustained in the third quarter when the 1956 models were being readied for the market. Some of these exceptionally large losses were the direct result of efforts that were being made to correct previous weaknesses. For example, labor trouble at Studebaker substantially cut that division's output during a year of record-breaking sales for the industry as a whole. Studebaker now has achieved a labor contract from the United Auto Workers that is fully equal to that held by the major producers, whereas in the past, labor costs were too high, owing to incentive rates that were not in existence at other producers' plants.

Similarly, the Packard Division has been able to improve its competitive position with respect to labor costs.

The break-even points of each division have been substantially reduced through integration of parts, mechanization, straight-line output, etc. S-P now could make money on substantially lower volume, provided that the present ratio of costs and car prices is maintained, and that defense output continues to carry part of the overhead.

The Packard Division could show a profit this year on a production of 85,000 units. This would be about one-third more than last year's output. But it is not likely that the Packard Division will reach the break-even point this year, since conditions are so much more competitive than last year.

The Studebaker Division has a break-even point of about 200,000 units or a little less. Studebaker sales officials are forecasting that sales this year will go to 240,000, but it remains to be seen whether they are not being unduly optimistic, in view of the fact that the seasonal upturn this year may prove somewhat disappointing, and third-quarter business is apt to show a much sharper slump this year than last year. In 1955, Studebaker made 114,000 cars, but its output was severely restricted by recurrent strikes.

Hopeful on Profits

After showing big losses in the first nine months of 1955, as it sought to tighten up the operations of the two divisions, Studebaker-Packard showed sharp improvement in the fourth quarter. The company came close to breaking even during this period. On the basis of this better showing, the company thought that it was in good position to begin to make a profit in 1956.

John T. Nance, Studebaker-Packard's president, an experienced market strategist, said, "This is our year to move up."

But S-P's move, temporarily at least, has been blocked by the disappointing trend of industry sales since January 1. The shutdown of the Packard plant in February will be damaging to the corporation's showing for the first quarter, and if operations are not resumed briskly in March, the corporation will again be in red ink for the three months ending March 31. Regardless of what happens in the way of seasonal improvement in the second quarter, it would seem that the down time in the third quarter, made necessary by the model changeover, will keep S-P in red ink this year, in spite of further economies which may be effected.

Substantial progress has been made at integrating tooling, so that the major model changeover scheduled this year for the Packard line should be much less costly than in former years.

The Studebaker Situation

The Studebaker Division has good possibilities, if it moves into a more favorable market. Studebaker, since World War II, had only one really bad year—1954.

Studebaker-Packard has certain advantages, and certain disadvantages, when it is compared with American Motors. S-P has a "full line" of motor products. It has Studebaker trucks and an auto line that is priced from just above the lowest priced cars of the Big Three, up into the highest-priced luxury category, as represented by the Packard line. In the medium-priced category, both Studebaker and Packard have entries. As against this rather complete coverage, American Motor's auto products, aside from the Rambler, are heavily concentrated in the medium-priced category, where the competition this year will be more vigorous than ever.

On the minus side, Studebaker-Packard does not have an appliance division. Furthermore, S-P has not gone nearly as far as American Motors has in integrating production. The Studebaker

(*Please turn to page* 708)

(*Continued from page* 706)

and Packard cars are still made on separate production lines, whereas American Motors has a single line in Kenosha.

The big problem facing each company is still the excessively high cost of tooling per unit sold. During the next two or three years, competitive auto companies will be spending more heavily on tooling new products than ever before. The 1957 models will embrace very extensive changes for most automobiles. Then, in 1958, it is likely that what would normally be a low cost face-lifting changeover in the industry will represent more important changes than usual. For the lesson of 1956 is that the industry must show more obsolescence in its product, from year to year, if it hopes to maintain sales and avoid disappointing off-years.

Meeting the Challenge

Can American Motors and Studebaker-Packard meet that challenge of heavy investments in product development and in tooling? Their resources are not unlimited. Once it was thought that the two companies would eventually come together to form a fourth big company. But, during the last year, the trend seems to have been away from a merger. The Packard V-8 engine, that has been used in some Nash and Hudson cars, will soon be replaced by American Motors' own engine. Only the most severe adversity will revive the merger talk, and thus far the parties will not concede this is inescapable.

Both American Motors and Studebaker-Packard can take comfort in the thought that the Big Three would not like to put them out of business. The percentage of the market accounted for by the independents is too small to make it worthwhile for the Big Three to capture it, in the face of public opinion, which would side with the small producers. But it is hard to see what the Big Three could do to create a healthier climate for the Little Two. Only an easing of competition among the big units, would make general conditions less onerous for the smaller companies. And such a trend may not come, unless the auto industry takes a leaf from the book of the steel companies and raises prices to sweeten profits. —END

Keeping Abreast of Industrial and Company News

(*Continued from page* 694)

that will have been spent in this country through 1958, made up of \$2.6 billion for actual expansion and over \$1 billion for recurring tool costs. The Ford stock, incidentally, will move from over-the-counter trading to the New York Stock Exchange on March 7.

Hupp Corp. will be best remembered by senior citizens for its Huppmobile, a motor car that was highly popular a generation ago. Hupp, with plants in Detroit and Chicago, is still doing business —primarily as a supplier of components to other manufacturers. During the past year Hupp has acquired six companies, most of which were purchased in late 1955. Last month, Hupp purchased about 60% of the 600,000 outstanding common shares of Gibson Refrigerator Co. of Greenville, Mich., from the Gibson family. Price: About \$5,760,000, or \$16 a share. It is planned to continue the present management of Gibson, although Hupp is expected to be represented on the Gibson board. Gibson is an old-line manufacturer of household refrigerators, freezers, electric ranges and air-conditioning units for residential and commercial use. For the fiscal year ended September 30, 1955, Gibson reported sales of \$32,074,000 and earnings before income taxes of \$1,530,000. Net profit was \$706,000, or \$1.17 a share. Gibson, with plants at Greenville and Belding, Mich., has total assets of about \$20 million, with capital and surplus aggregating about \$13.5 million.

Gamble-Skogmo, Inc. has sold its block of 287,000 shares of **Western Auto Supply Co.** common stock to National Management, Ltd. of Montreal. Western and Gamble operate chains of retail stores selling automotive supplies, appliances and sundries. The 287,000 shares amount to 19% of the total 1,502,736 outstanding shares of Western. Identity of National Management has stirred considerable speculation. Paul Connor, president of Western, has said he does "not know who National Management is" and is endeavoring to find out. Robert O. Denman, president of Denman Enterprises, Ltd., Hamilton Ont., early this year made an offer through a New York bank to purchase 300,000 shares of Western at \$38 per share from any holders who would tender stock. Western opposed the offer because its officials were unable to learn Mr. Denman's associates or purposes. Western, on February 7, asked in Federal court for an injunction to prevent Gamble, B. C. Gamble, its president; Denman Enterprises, and Mr. Denman from acquiring any Western stock. Western charged the parties named had "entered into a conspiracy" to get control of Western. Such control, the suit set forth, would be aimed at lessening competition between the two companies.

Someone has finally come up with an answer to help ease fatigue, tension and nervous strain which has harassed many an executive.

The device is a revolutionary massage cushion developed by the Niagara Manufacturing & Distributing Corp. of Adamsville, Pa. The new cushion, which can be used by the executive while he sits at his desk, utilizes the new massage principle of cycloid action. The desk weary executive can either sit on the soft comfortable cushion or place it behind his back. Studies have proven that the cushion helps relax the taut, tense business executive while he works. It not only can be used in the office but it can also be used in the home.

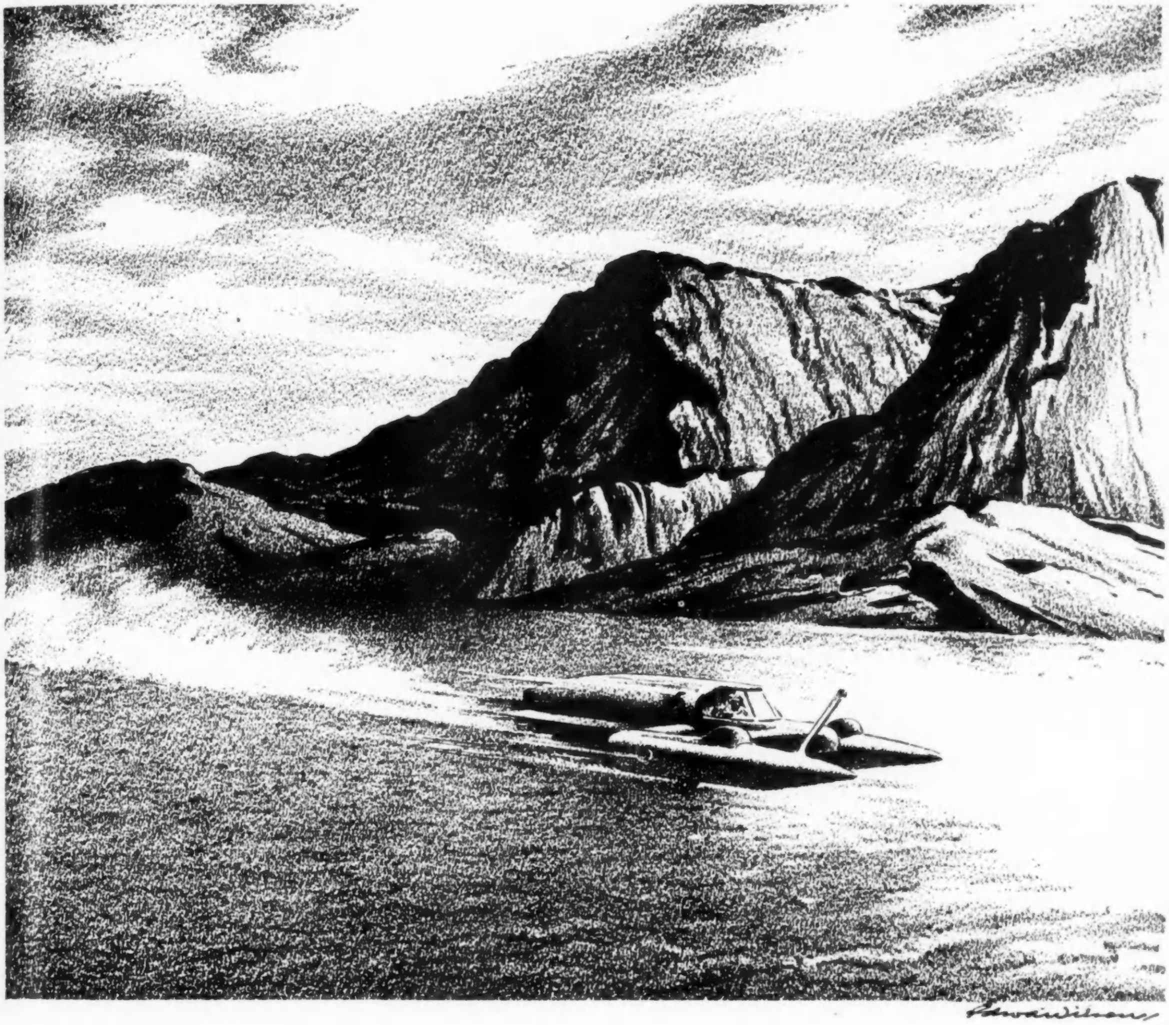
The Niagara company revealed that a similar type of cushion is being tested by the armed forces. —END

Backward and Modern Regimes

(*Continued from page* 684)

ment spending and the recent reduction of Brazil's commercial debt may prepare the way for extensive borrowing by public utilities. Private foreign capital's help with industrialization is also essential. "Any foreign investor will find the door open, no matter how busy I may be," expresses the at-

(*Please turn to page* 710)



Backward and Modern Regimes

(*Continued from page* 708)

titude of the new President. Meanwhile, German, French and Dutch capital have been flowing continually into Brazil, whose economy is growing at quite an amazing rate, inflation or no inflation.

Finland Chooses "Moscow" Man

In Helsinki the electoral college chose last month Premier Dr. Urho Kekkonen as the next President of Finland. Although no one in his senses could accuse Dr. Kekkonen of pro-Communist leanings, his political opponents nevertheless call him a "Moscow" man. Like the outgoing President, Juho Paasekivi, he not only favors political and economic cooperation with the Soviet Union, but at times he has been known to go further in concessions to Moscow than it has apparently been necessary. The presidential election was an important event because the Finnish President has wide powers—he can dissolve the Parliament and he determines foreign policies.

The Russians, on their part, have conscientiously pursued a policy of good neighborliness toward Finland, knowing that this would produce the desired effect on neutralist Sweden. In December, Porkkala, the Russian base near Helsinki, was evacuated, and the Russians have also supported Finland's entry into the United Nations and the Nordic Council.

Economically, Finland has been living on borrowed time, thanks to the high prices of newsprint and paper products and to Russia's willingness to absorb Finnish industrial products. Otherwise some adjustment in the badly overvalued Finnish markka would have taken place a long time ago. Finland's serious inflation can be traced to the reparation payments to Russia, extensive reconstruction and costly welfare legislation. More recently, purchasing power has been fed to the Finnish economy in large doses as a result of deals between the socialists and the agrarian parties, whereby industrial wages and the prices received by farmers are tied to the cost-of-living index. Labor unions are threatening with a general strike unless recent farm price increases are repealed or factory take-home pay raised.

Greece Faces Uncertain Future

Serious inflationary pressures reappeared in Greece last year despite the fact that the country is still receiving sizable American aid. Greece has been living beyond her means, spending heavily on public works, partly to provide more employment. Public uneasiness about the mounting currency circulation has been reflected in the rise in the drachma value of the gold sovereign from about 310 drachmas to 350 drachmas—always a sure sign that something is wrong in Greece. Yet, basically, the country has been in good shape. Exports have kept pace with rising imports, and industrialization has been making good progress. Essentially, Greece has been in need of a strong government that would cut down public expenditures, carry out much needed tax and fiscal reforms, and in general, make the country live within its means.

It looked as if this government might be that of Konstantin Karamanlis, the leader of a minor right-wing party, whom the king selected to head the Government following the death of Premier Marshal Papagos last Fall. But to carry out a retrenchment program, the Karamanlis Goveernment needed a public mandate. Hence, the elections a couple of weeks ago.

Unfortunately, the slim majority given to the Karamanlis Government may postpone the carrying out of retrenchment measures. There is a danger that inflationary forces may gather momentum, in which case public dissatisfaction over rising prices and unemployment may yet see the E.D.E. Party — the Union of Democratic Leftists, which is a holding company for the communists gone underground — in power. That would be disastrous for Greek business and would also spell the loosening of ties with the West. In an extreme case, the army would probably interfere. Meanwhile the Russians and their satellites have been doing their best to entice Greece into barter deals involving tobacco and other products that Greece finds difficult to sell in the West.

A New Republic of Sudan

A new tricolor flag likely to fly some day at U.N. headquarters will be that of the sovereign Republic of Sudan, a country of nearly 10 million people yet to be welded into a nation. The welding will probably be done by the Arab-speaking Northerners, closely related to the Egyptians. The Southerners are mostly Nilotic and Negro peoples who, though converted to Chistianity, have remained relatively primitive. There is not much love lost between the Northerners and the Southerners, and there is a danger of another "Pakistan" if the "Sudanizing" process is pushed too fast. There have already been some serious outbreaks against the Northerners in the vast southernmost province called Equatoria.

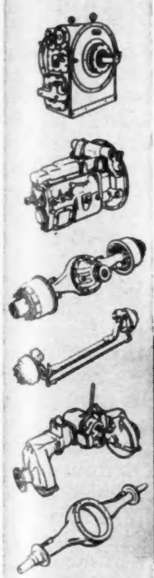
Sudan is a relatively advanced country as African nations go, paying its way chiefly by exporting cotton, grown mostly on a huge irrigated tract of land called Gezira—an island—since it is located between the Blue and White Niles. The market for the cotton has been chiefly in Great Britain which has also been by far Sudan's largest customer and leading supplier of imports. Trade with the United States in the last few years averaged about $6 million both ways, the chief U.S. imports consisting of gum Arabic, cotton, and hides and the principal U.S. exports being motor vehicles, pharmaceuticals and industrial machinery.

About three years ago the Sudanese began to take over the government from the "British Political Service" a picked, high-grade corps of officials who had given the country efficient administration and who were responsible for its relative prosperity. As in India, nepotism and graft will probably increase materially until the Sudanese, by trial and error, learn to rule themselves more efficiently.

Sectionalism in Nigeria

Sectionalism may likewise prove to be the chief stumbling block to the economic development of another African country, Nigeria, which was recently visited by Britain's royal couple and which is scheduled to get a sovereign dominion status this year.

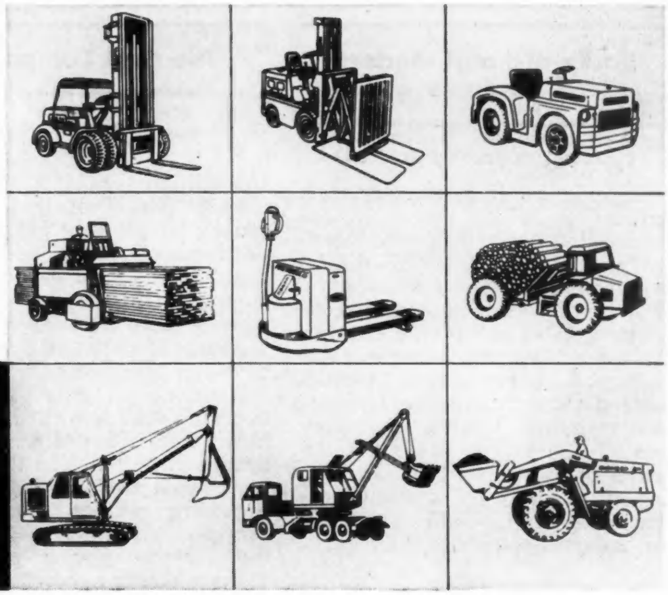
(*Please turn to page* 712)



1955

December 31, 1955

CLARK® EQUIPMENT COMPANY



condensed financial report

The Company has mailed to all shareholders as of February 15, 1956, a preliminary report containing the financial statements for the year ended December 31, 1955. The financial report and operating particulars presented here in condensed form have been prepared by the company from the more detailed financial statements certified by the company's public accountants, Price Waterhouse & Co. Copies of the preliminary report to shareholders are available upon request sent to the Secretary at the home office of the company at Buchanan, Michigan.

CLARK EQUIPMENT COMPANY

President

SALES, INCOME, AND OTHER PARTICULARS FOR THE CALENDAR YEARS 1955 AND 1954

	1955	1954
SALES, before discounts	$150,689,688	$101,983,120
Income before federal income tax	$ 19,285,626	$ 11,310,986
Provision for federal income tax	9,750,000	5,600,000
NET INCOME for the year	$ 9,535,626	$ 5,710,986
DIVIDENDS PAID IN CASH:		
Common stock—$3.75 per share in 1955 and $3.00 per share in 1954	$ 4,197,229	$ 3,357,783
Preferred stock—$5.00 per share	76,045	88,026
TOTAL DIVIDENDS	$ 4,273,274	$ 3,445,809
EARNINGS—per share of common stock outstanding (after dividends paid to preferred shareholders)	$8.45	$5.02

Balance Sheet - December 31, 1955

ASSETS

CURRENT ASSETS:		
Cash	$ 11,271,894	
Accounts Receivable	15,767,617	
Inventories—at lower of cost or market	36,636,705	
Prepaid expenses	245,251	$ 63,921,467
INVESTMENTS		4,124,092
LAND, BUILDINGS AND EQUIPMENT	$ 38,266,641	
Less—Depreciation	15,353,706	22,912,935
		$ 90,958,494

LIABILITIES

CURRENT LIABILITIES		$ 22,341,193
3¾% NOTE PAYABLE (due in annual installments of $1,000,000 from 1959 to 1974, inclusive, and balance on December 1, 1975)		20,000,000
CAPITAL STOCK AND RETAINED EARNINGS:		
Preferred 5% cumulative—par value $100 per share (13,112 shares)	$ 1,311,200	
Common—par value $20 per share (1,136,505 shares)	22,730,100	
Capital in excess of par value of shares	8,043,770	
Earnings retained and used in the business	16,716,831	
	$ 48,801,901	
Less—Cost of 17,244 common shares held in treasury	184,600	48,617,301
		$ 90,958,494

CLARK EQUIPMENT COMPANY · Buchanan · Battle Creek, Benton Harbor & Jackson, Michigan

Backward and Modern Regimes

(*Continued from page* 710)

Nigeria is a huge country with almost 30 million people, whose purchasing power has been steadily increasing in recent years. She is one of the largest African markets for Western European consumer goods; her textile imports are one of the mainstays of Lancashire. A typically underdeveloped country, Nigeria possesses vast mineral wealth, including one of the largest uranium deposits in the world. She has been paying her way by exporting cocoa, palm and peanut products, tin, columbite, rubber, and hardwoods.

Nigeria really is three countries, which in the pre-British days used to war on each other. Two of them, the Western and the Eastern Regions, are the old Slave Coast. They have together about half of the country's population, are predominantly Christian and progressive, and quite anxious to become independent. The third section, the Northern Region, with the other half of the population, is predominantly Moslem, conservative, illiterate, and bitterly distrustful of the South. In fact, the North would like to see the present colonial status continued and the British stay until its relative backwardness is overcome.

There is real danger that the old hatreds will be revived in the new Nigerian Dominion. The present fairly well-balanced economy may be broken up with the result that some of the less prosperous sections may become tempting prey to communism. Such a development could easily discourage confidence overseas and an inflow of foreign capital, large amounts of which will be needed in the next few years to develop Nigeria's natural resources and to introduce consumer-goods factories. —END

The Coal Companies

(*Continued from page* 689)

150 million tons of coal annually over a period of 40 years. Of equal and perhaps greater interest from the standpoint of coal itself, is the plan for a new carbonization plant which will provide a more economical fuel in the form of char and a new source of usable chemicals from coal, the full impact of which will, it is expected, take some years to make itself felt. Basically, the significance of this lies in the upgrading of coal into the chemical field, providing, at the same time, a source of lower cost fuel for electric power generation. Through such a process, it is believed, coal is given a powerful lift as an entry in the chemical field in an area presently dominated mostly by natural gas and oil, and also improves its competitive position in the power field against these same fuels and, in time, against nuclear fuel. As to the eventual appearance of this latter competitor, coal people, to quote President Joseph P. Routh, The Pittston Company's President, also are intensely interested in nuclear reactors, "and it well may be that in the future the terrific heat generated by them will be the means of liquefying bituminous coal and eventually producing economically a vast new reserve of oil, gas and chemicals."

Mine Mechanization

In studying the current position of the coal industry and its potential future, the remarkable achievements in improving productivity in recent years must be brought into focus. Under an aggressive program, initiated several years ago, U. S. coal producers with the cooperation of equipment makers have moved steadily forward in achieving greater efficiency and improved technology, bringing bituminous coal mining to a high degree of automation. Outstanding among these advances have been new and more efficient equipment such as the Joy Manufacturing's 1-CM, having a capacity of four tons of coal a minute, extensible belt conveyors, providing an uninterrupted flow of coal over a distance up to 1,000 feet from the point of operation to the main haulage conveyor. Another evolution has been the adoption of mechanical steel roof bolts in place of wooden props which, together with the advances in mining machinery, has made it possible, at many mines, to produce coal by the original method of deep mining at lower cost. Productivity in U. S. underground and surface or strip mines now averages 9 tons per man per day. This is almost double the prewar rate and compares with about 1½ tons in the rest of the world. In some of the more efficient American mines production per man per day runs as high as 25 tons and even this rate is exceeded at one of The Pittston Co.'s strip mines producing as high as 45 tons per man per day. Such output, of course, is the exception and not the rule. However, the industry continues to work for still greater efficiency through new machines, methods and transportation and expects that within the next four or five years its average productivity will again be more than doubled.

Anthracite Producers

From all of the foregoing it appears that there is a good foundation for the optimism that has spread over the bituminous coal industry. This feeling of future well-being, however, is not shared by the producers of anthracite. Last year, hard coal production declined to 24.9 million tons from the previous year's 27.1 million tons, the continuing drop reflecting further loss of markets to fuel oil and gas for building and home heating. The immediate outlook for any material improvement in anthracite consumption is not bright but hard coal producers are evincing great interest in experiments now under way to determine if their product, blended with coke, has advantages over straight coke for use in pig iron production. Over the longer-term are the possibilities of coal as a source of various chemicals, including some that up to now have never been available in large quantities. This is a field that has been of particular interest to Union Carbide & Carbon Corp., for a number of years. Several years ago UCC completed

(*Please turn to page* 714)

The Coal Companies

(*Continued from page* 712)

an $11 million plant at Institute, West Va., the first unit of which was a 300-ton per day pilot plant for the conversion of coal primarily into chemicals. Since then, having proved that primary liquefication phase of coal hydrogenation is technically feasible this plant has proceeded to give its attention to product separation, making such progress that UCC is thinking about a larger plant capable of processing 1,000 tons of coal per day, and eventually increasing facilities with a capacity to handle as high as 5,000 tons of coal daily. This is looking ahead several years. Immediate prospects for the anthracite producers, however, are anything but encouraging. The exception may be *Glen Alden Corp.*, which, while continuing as an important anthracite producer, has been carrying out a program of diversification, acquiring in March, 1954 a growing manufacturer of air conditioning equipment, and in January of this year took its second step under this program, acquiring Ward LaFrance, one of the foremost builders of fire engines, fire fighting apparatus, and specialty trucks of various kinds. Glen Alden finished the first nine months of 1955, showing net earnings equal to 85 cents a share but this was probably cut by loss of production and higher operating costs as a result of floods that swept the anthracite regions last year, resulting in an operating loss in the final quarter.

Among the bituminous group *Island Creek Coal* and *The Pittston Co.*, although speculative, appear to be in a good position, especially in view of their importance as producers of metallurgical coal for the steel industry. Preliminary Island Creek figures for 1955, including earnings of the merged Pond Creek Pocahontas Co., showed net income of $6 million, equal to $3.08 a share, compared with 1954 net income on a consolidated basis for the two companies of $2.8 million, or $1.43 a share. Quarterly dividends of 50 cents a share, increased from 37½ cents last December, appear secure.

The Pittston Co., through its various holdings, has diversified interests, including distribution of petroleum products, transportation, terminals and warehousing, and coal mining and distribution. Through its subsidiary, Clinchfield Coal Corp., it owns and controls 300,000 acres of coal lands, containing an estimated billion tons of all kinds of coal, including about 300 million tons of high grade metallurgical coal. For the 9 months to last Sept. 30, earnings reached $1.84 a share, indicating on the basis of final quarter operations at capacity rates, net earnings for all of 1955 at better than $2.50 a share. With the declaration of quarterly dividend in January, 1956, payments were increased from 25 to 30 cents. This distribution is to be supplemented by a stock dividend of 5%, payable March 26 to stock of record March 12.

Pittsburgh Consolidation Coal, the largest commercial bituminous coal operator, includes among its production both metallurgical and steam coal. Has the benefit of low costs, giving it the ability to hold earnings to a comparatively satisfactory level as it did in 1954 when a number of other companies showed only slight profits or, in some cases, losses. Earnings for 1955 are estimated at $1.65 a share after giving effect to the 3-for-1 stock split that went into effect last February 24. The company has indicated that cash dividends on the new stock will be inaugurated at 30 cents quarterly. The stock is worth holding. —END

Far-Reaching Effects of Patent Decrees

(*Continued from page* 673)

A measure of the broad base of research and development in our economy is the fact that about 10,000 companies with less than 100 employes and 4,000 others with 100 to 499 employes are engaged in such work. The growth of research as a major industry also is attested by the $430 million spent for such work by American corporations in 1945. Now, a decade later, these companies are spending at an annual rate of $4 billion.

Innumerable small companies, which carry on little or no research, owe their present-day affluence to the costly studies of the giants. They could never have afforded the basic developmental work that Telephone put into transistors. In addition Telephone technicians, at a cost of millions of dollars, have educated small producers on uses of new devices. Telephone perfected the transistor over a period of four years and brought the price down to 90 cents each from $30.

Another example of the restraint with which the Justice Department victory is greeted by small companies is provided by Beckman Instruments, Inc., West Coast producer of electronic instruments. A. O. Beckman, president, sees little immediate effect since his company already is licensed by Telephone and royalties are so low that there would be only negligible savings if licenses were free. Beckman is more concerned with the broader implications. It would prefer to pay royalties, with the assurance that the patent system would continue, than to see incentive diminish because neither the inventor nor his company could reap the financial benefits of exclusive use of the patents.

Role of Research

Research represents an operating division of a company and in this role as a member of the corporate team has definite responsibilities comparable to those of sales, manufacture, purchasing and other established functions. It must, however, resist the temptation to concentrate on problems requiring immediate solution at the expense of those that must be solved in the future. It may be many years before specific projects result from this work, but unless the fundamental work is done today the nation will lose the benefits that accrue from industries yet unborn.

At the moment, the men at the helm at Telephone and IBM are incensed at the implication that their companies have been doing something that was not legal. Even they are unable to say what the consent decrees portend for the vital research carried on throughout American industry. The impact, of course, is sure to vary from industry to industry and even company to company. In the instance of Telephone, that company already had more than 1,000 licenses for its patents and had made them available with no restriction except payment of a nominal fee. Even its cross-licensing agreements with General Electric, Westinghouse Electric Corp. and Radio Corp. of America were not exclusive. Others were licensed for many of the same patents. In effect, all the consent decree does is to make compulsory a practice that Telephone has followed for years.

For other companies, dependent on patents developed through costly research, the hardships could be considerable and the incentive to step up research programs non-existent. And this much is certain: The Justice Department will not stop here. Yesterday it was Telephone and IBM — tomorrow smaller and more vulnerable companies face Government action. —END.

Farmers' Declining Share Stirs Unwarranted Charges

(*Continued from page* 687)

farms that produce the great bulk of commercial food supplies. Agricultural productivity per man hour has more than doubled since prewar.

Some economists maintain that we are in an Agricultural Revolution that is very similar to the Industrial Revolution of 150 years ago, and that the declines in

(*Please turn to page* 718)

Facts and Figures

FROM THE 1955

ANNUAL REPORT

HIGHLIGHTS

• Continental Motors Corporation and consolidated subsidiaries — Gray Marine Motor Company and Wisconsin Motor Corporation—had net sales of $145,465,155 in the fiscal year ended October 31, 1955, as compared with $182,061,693 in 1954.

• Net earnings declined from $4,542,748, or $1.38 per share, to $2,502,287, or 76 cents a share.

• Net working capital at the close of 1955 was $30,562,481.

• Capital expenditures in 1955 totalled $2,978,500. This was spent for plant expansion, tooling and equipment.

• Investment of Continental Motors stockholders reached a new high mark of $44,349,599 in 1955, while book value of the common stock rose from $13.38 to $13.44 per share.

• Continental finished the year with current assets of $58,115,700, and current liabilities of $27,553,219. Inventories were reduced $133,803 during the year. The ratio of current assets to current liabilities rose from 1.9 to 1 to 2.1 to 1, highest since 1950, when it was 2.3 to 1.

• Continental made arrangements in 1955 for exploitation and production, in this country, of a radically new principle of Diesel combustion, making possible the use of multiple fuels in one engine, and promising to have important effects on company sales. More detailed announcement is planned for the early future.

• The highway construction program, and the continuing activity in building, are among the bright spots in 1956. As a major supplier of power for the specialized equipment used in these fields, Continental looks forward to substantial business here.

• Military business reflects the current conservative policy. However, an order for approximately $17 million worth of military vehicle engines has recently been received.

• The order backlog of Continental Motors and consolidated subsidiaries at the end of fiscal 1955 totalled approximately $88 million.

STATISTICS

Fiscal Years Ended Oct. 31	1955	1954	1953	1952	1951
Engine output (horsepower)	13,876,317	14,659,577	23,073,000	21,390,000	16,950,000
Net sales	$145,465,155	$182,061,693	$298,438,605	$264,219,009	$166,677,855
Net earnings	$2,502,287	$4,542,748	$6,023,812	$6,126,021	$4,469,063
Net earnings per common share	$0.76	$1.38	$1.83	$1.85	$1.35
Dividends per share	$0.70	$0.80	$0.80	$0.60	$0.45
Current assets	$58,115,700	$67,362,396	$104,895,088	$106,074,697	$77,194,737
Current liabilities	$27,553,219	$35,667,076	$72,618,572	$76,692,367	$51,185,864
Net working capital	$30,562,481	$31,695,320	$32,276,516	$29,382,330	$26,008,873
Ratio of current assets to current liabilities	2.1 to 1	1.9 to 1	1.4 to 1	1.4 to 1	1.5 to 1
Long-term debt	$3,040,000	$3,320,000	$3,600,000	$3,880,000	$4,160,000
Property, plants and equipment (net)	$17,219,239	$16,654,419	$14,085,545	$13,573,156	$12,533,919
Stockholders' equity	$44,349,599	$44,157,312	$42,254,564	$38,870,752	$34,724,731
Book value per common share	$13.44	$13.38	$12.80	$11.78	$10.52

Continental Motors Corporation

MUSKEGON, MICHIGAN

Farmers' Declining Share Stirs Unwarranted Charges

(*Continued from page* 716)

prices of farm products are the direct result of highly mechanized mass production. It is asserted that current prices, although lower than several years back, nevertheless still are very profitable for the large-scale farm operators.

While the number of farmers has shrunk sharply since prewar, crop acreage has been maintained and productivity per acre has increased. Approximately 60% of the farms in the United States, which account for no more than 10 to 15% of total acreage and crop production, are mechanized to only a minor degree, or not at all. Acreages are too tiny for efficient operation, but these small farmers nevertheless are attempting to compete with the big, low-cost operators.

It would appear that these farmers are the basis of the real farm problem. Many of them could be absorbed in the business world, where a labor shortage exists. Mnay would like to make this transition but are held back by the fact that their farms represent their only possessions. President Eisenhower's soil bank plan appears to offer the way, through rental of acreage, to enable these small farmers to make the transition and thereby eliminate at least some of the present chaotic situation in agriculture. We appear to be suffering not so much from a surplus of farm products as from a surplus of farmers.—END

The Broadening Base for Consumer Spending

(*Continued from page* 675)

gains already made and still anticipated.

But established lines are not being neglected. Kelvinator division of American Motors Corp. predicts that refrigerator sales this year will rise to 4.2 million units from 4 million in 1955 and 3.6 million in 1954. Electric-range volume this year, despite warnings of reduced building activity, is expected to rise to 1.7 million units from 1.6 million last year. Home-freezer volume is expected to move up a notch to 1.2 million from 1.1 million last year and 900,000 in 1954. Room air-conditioners carry the promise of healthy expansion in volume with sales of 1.5 million units seen this year against 1.3 million in 1955 and 1.2 million in the preceding year. Combined volume of conventional and automatic washers and clothes-dryers is seen touching 6.1 million units this year in contrast to 5.9 million in 1955 and 4.6 million units in 1954.

Rise of the discount-house type of merchandising has also had a profound influence on the ability of consumers to purchase durable, and even non-durable, goods. This method of distribution has become so prevalent in recent years that it has caused a wide-scale narrowing of distribution margins which, in effect, has added about 10% to the purchasing power of every consumer. Full recognition of the reduced wholesale and retail margins on durable goods was granted when when General Electric Co. reduced list prices of its line of housewares recently. Automobile markets depending on mass merchandising have also found that the only way to move merchandise is at reduced markups.

The rise of giant low-markup retail organizations like Korvette Inc. in the New York area whose sales are now at a $100 million annual rate and others around the country has alerted the large department store chains to the need for frill-less merchandising where necessary. Many such as Federated Department Stores and Allied Department Stores have adopted measures to permit them to price appliances and soft goods in line with levels established by vigorous competition. Under these conditions, less efficient merchants are slowly being weeded out.

Market in Strong Growth Trend

Since 1950, our population has increased by more than 15.8 million to 167 million. By 1965, there will be more than 190 million Americans. Almost 4 million babies were born in 1953 and slightly more than that in 1954 and in 1955. These will be trans-

(*Please turn to page* 720)

The Broadening Base for Consumer Spending

(*Continued from page* 718)

lated into newly-established households 20 years hence. Actually, the spurt in postwar birth rate will be reflected in an anticipated gain in new-household formations starting with 1962.

However, improvements in medicine and a better understanding of health have added large market potential at the other end of the scale. A person born in 1900 had an average life expectancy of 47 years. By 1920, this had been lengthened to 54 years and to 68 years by 1950, at which level it currently remains. Adding more than 20 years to the expectancy of people born 56 years ago means than even if the birth rate were static, there would be an increase of about 40% in population accounting for at least that much more demand.

The greater number of people, coupled with a leveling of the economic status of the country around a prosperous middle-income class have created a much broader base for sales which virtually puts old landmarks of volume goals into archives and sets new marks above the older ones. Until these factors have achieved wider recognition, there are likely to be sales results each year which are larger than anticipated at the start of the period leading to continued favorable economic results.—END.

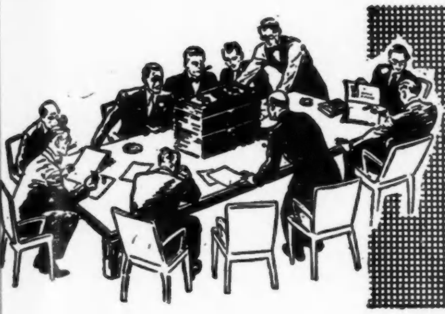
10% Decline in Automobiles & Housing

(*Continued from page* 670)

high at $40 million, equal to $5.05 a share for the common stock, as against net income equal to $3.27 a share in 1954.

Offsets Cited

In summary, on the assumption that other demands of the American economy—for capital goods, for defense, for appliances, for consumer soft goods—remain at current levels, there appear to be many offsetting strengths available to blunt the impact of even sizable declines in automobiles and housing. The American economy appears to retain considerable flexibility. And the prudent management of large corporations — their continuous efforts at diversification and new product development—have introduced an encouraging note of stability into the behavior of individual firms. While something in the nature of a mild recession would not be a surprising outcome of current trends in the automobile and housing markets, there is as yet no good reason to look for a precipitous broadening of the area of recession, or a serious alteration in the nation's general level of prosperity.—END



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The Forecast has recommended a number of extremely profitable stocks that split. For example, in April, 1954, it advised subscribers to purchase Sperry at 59. On November 1, 1954 it was split 2-for-1 . . . on March 1, 1955 it paid a 5% stock dividend . . . and on July 1, 1955, each share was exchanged for 3¼ shares of Sperry-Rand.

Therefore, if you bought 100 Sperry at 59 for $5,900 . . . you would now have 682½ shares of Sperry-Rand at 25¼, worth $17,233 . . . a profit of 200% in a year and 9 months.

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As I See It!

(*Continued from page* 665)

tion and infiltration; to allay well-founded fears by the suggestion that the new Communism is flexible and can be altered to melt in with their own dreams and goals.

The Threat of Ruinous Competition

The whole plan ties in perfectly with the intensified economic warfare Russia is waging against the United States—wherein the Soviets are offering loans, machinery, technicians to operate and teach their "know-how"—and barter for products the Soviets need so badly. And while doing this, build markets for their goods at prices that will mean ruinous competition for the United States and our allies.

This is clearly a fight to the finish, with Russia retaining the initiative. The weakness of our policy—the use of one expedient after another because of our unpreparedness to meet the onslaughts—is causing us to lose the respect and confidence of the world. Already NATO is in danger—the elections in Germany and Greece have gone against us—the attitude of the Arabs, who flout us—all show how the wind blows.

The truth is our leadership has gone soft—there are too many compromises, so that we have to retreat continuously before the attacks of the Russians, who have concentrated on our weakness.

We need another Theodore Roosevelt, who built the kind of moral fitness that made our country great—whose advice, "talk softly, but carry a big stick," brought respect for the United States all over the world.

We have to wake up if we do not want to lose out in this great struggle. —END

Copper takes on Glitter

See March 17 Issue

Business Still the Major Market Factor

(*Continued from page* 667)

Dow industrial average. This suggests a formidable supply level in the upper reaches of the trading range now so long maintained. The average has plowed more than halfway up into that supply area. The remaining distance to the December 30 bull-market peak may seem small, but in this situation the last mile, yard and foot could be the hardest to surmount. Whether or not the old summit can be surpassed, the limit is much below the sky. In fact, from the present height, we do not see a great deal to go for in near-term or medium-term capital-gain potential. Your policy should remain generally conservative and highly discriminating.

—Monday, February 27.

BOOK REVIEWS

The Great Crash 1929

By JOHN KENNETH GALBRAITH

The climactic event of 1929 was, of course, the great stock market crash that autumn. But before the Great Crash came the greatest speculative boom ever. Mr. Galbraith tells of the breathtaking ascent of the Coolidge bull market, of the ultratentative efforts of the government to check it, of the great investment trust promotions which, for a time, dwarfed the operations of the U. S. Treasury, and of the people in high places and low who made speculation a way of life. Most of all, he tells of the mood and the manners of the American people as suddenly and marvelously they saw a chance to become very rich.

Then came the collapse. Mr. Galbraith guides the reader through those awful days when the worst seemed always to be past but never was. Novelists and historians, he suggests, have long known the value of wars, revolution, and disaster for the insight they provide into the very wellsprings of human motivation. But as those autumn days in 1929 showed, financial panic is almost as serviceable. Then for a moment even the mightiest of Americans were revealed stripped and naked as nature had made them.

This is history—amusing and engrossing, but serious and careful history nevertheless. The author had a further end in mind. Events like those of 1929 provide an invaluable picture of the economy and how it works. In telling the story of 1929, he shows how the financial markets function, shows the role of the banks and the Federal Reserve System, develops the relationship between Wall Street and the economy at large, and weighs the chance that the history of twenty-five years ago will repeat itself. More Americans, it is certain, will learn of the mysteries of economics, finance, and the business cycle from this book than from any recent textbook on the subject.

Houghton $3.00

Monopoly in America

The Government as Promoter

By WALTER ADAMS & E. H. M. GRAY

In this challenging book the authors take a refreshingly new, yet realistic, look at the problem of government policy toward business.

This is an age of bigness—big business and big government. Regardless of the political party in power, Washington is the nerve center which shapes, controls, and regulates our complex national economy. Federal policy, the authors argue, largely determines whether enterprise is to be free and competition effective, or whether bigness is, indeed, to be the wave of the future.

Monopoly, in their view, is neither inevitable nor desirable but arises from misguided public policies. Corporate concentration, they say, can no longer be explained in terms of economic imperatives, private conspiracies, or monopolistic mergers but is too often the outgrowth of unwise, discriminatory, privilege-creating governmental measures which throttle competition and restrict opportunity. The government thus actually promotes monopoly.

The authors support their argument by examining specifically the impact of government policy on taxation and expenditures, the distribution of defense contracts, the regulation of public utilities, the disposal of surplus property, and atomic energy legislation. More competition, they say, will give the public better protection than more regulation.

MacMillan $3.50

The Big Pick-Up

By ELLESTON TREVOR

DUNKIRK: the nine-days' wonder that sprung one-third of a million men from the greatest military trap in history; a glorious victory wrought from the threat of total annihilation; heroic fortitude and valor in the face of monstrous odds; a collective assertion of the unconquerable in the spirit of man . . . the word calls to mind many things, but primarily one thinks of khaki, of the long twisting lines of war-weary, beleaguered but undefeated soldiers on the beaches, patiently waiting for deliverance from their living hell.

This relation of the miracle of Dunkirk in novel form has been hailed, in advance of publication, as "a masterpiece." It would be virtually impossible to convey in its entirety the panoramic drama of "Operation Dynamo," as it was called by the Admiralty, but by concentrating his focus on a single, infinitesimal part — a small band of soldiers caught forty miles from the sea, struggling to reach the coast and rejoin their comrades, fiercely determined to survive—Elleston Trevor suggests the staggering immensity of the whole with astonishing success.

Here is depicted, with intense immediacy and realism, the intimate personal reactions of a few flesh and blood individuals to the coldly impersonal holocaust of modern warfare that surrounds them. Corporal Binns and his men are not heroes of superhuman stature; they are simply human beings involved in a desperate situation, striving desperately to stay alive.

This is the way it must have been. It rings true. And in that truth are embodied those elements of bravery, dignity and terrible beauty which generations to come will understand by the single word, the name itself: Dunkirk.

Macmillan $3.00

Answers to Inquiries

(*Continued from page* 703)

Two other divisions also are moving ahead. The Industrial Truck division, which sold more equipment to civilian users in 1955 than in any previous year, anticipates an even better year in 1956. New equipment will be introduced by the division this year and this should aid sales.

The job of materials-handling equipment is to cut costs and Clark has approached the development of new equipment with that principle uppermost in mind.

In addition to working alongside the Industrial Truck and Construction Machinery divisions in the development and production of transmissions and other power train components for Clark end products, the company's Automotive division also carries out its own independent development program. Several items with promising futures are now undergoing tests and some likely will be available to the heavy vehicle market the latter part of 1956.

Dividends, including extras, totaled $3.75 a share in 1955 and 75 cents is the current quarterly rate.

Celotex Corporation

"As you have stated in your publication that residential housing starts may decline as much as 10% from the level in 1955, I have been wondering about Celotex Corp. prospects for 1956. Will you please review the company and give latest earnings figures and other pertinent data?" *L. F., Phoenix, Ariz.*

Celotex Corp. is engaged in the manufacture of building materials, being the largest factor in the rigid insulation board and acoustical products industry. Sales of insulation tend to fluctuate more widely than in the case of most building materials.

Net earnings of Celotex in the fiscal year ended October 31, 1955, were $5,081,643. after all charges and provision for taxes on income, an increase of 58% over earnings of $3,202,649 the year before.

After preferred stock dividend requirements, 1955 earnings were equal to $5.49 a share on 878,651 shares of common stock outstanding at yearend, compared with $3.35 a share in the preceding year based on the same number of shares.

Net sales were $71,136,590, a new high for the company, and 14% greater than sales of $62,-257,623 in 1954.

Capital expenditures during the year were slightly under $6 million. A new gypsum board plant was completed at the Celotex Port Clinton, Ohio, properties, and another production line was added at the Marrero, La., plant for the manufacture of acoustical products. Present plans include starting construction at an early date of new plant facilities to cost approximately $7 million.

While increased sales contributed additional earnings, a substantial factor in the earnings growth was the extensive research, and plant modernization and improvement programs instituted within the past few years and now being carried on. Further progress is anticipated for the company in 1956.

An expected total building activity comparable to that of 1955 should provide a continued high demand for Celotex products. Residential housing starts may decline as much as 10% from the near-record level in 1955, but Celotex expects impact of any decline to be tempered by the need for more materials per house by a continuation of the trend toward larger and more livable homes.

There also is expected an increase in the volume of commercial and other non-residential housing construction, with a resulting larger demand for materials. Demand for sound-conditioning in schools, hospitals, churches and other institutional buildings as well as offices and homes will provide an extensive outlet for the company's acoustical products.

Celotex, Ltd., English subsidiary, reported net income for the fiscal year ended October 31, 1955 of $410,385, compared with $322,-566 for the previous year, converted at the rate of $2.80 to the pound sterling.

Associates Investment

"Enclosed please find stamped and self-addressed envelope for your reply to my inquiry on Associates Investment Co. Please furnish recent earnings, dividends and the outlook for the company over coming months."

C. H., Cheyenne, Wyo.

Associates Investment Co. is the third largest independent finance company in the country. It has a good earnings record.

Record earnings of $19,004,135 in 1955, a 21% increase over 1954, were reported by Associates Investment Co. and subsidiaries. Previous high earnings of this major sales finance company were $15,679,790, realized in 1954.

Last year's total volume of $1,560,672,229 was a 47% increase over the $1,058,501,445 volume of a year previous.

Earnings were equal to $5.86 a share on 3,125,472 shares of common stock outstanding, after provision for preferred stock dividends, compared with $4.85 on the same shares a year before. The Federal taxes in 1955 amounted to $5.55 per share of common stock.

Retail motor vehicle financing, which increased 43.5% to a new high of $759,584,369, was the largest single contribution to 1955 volume.

Receivables outstanding on December 31 reflected the year's increased business, rising from $562,537,405 to $813,412,563. Of the total, retail motor vehicle installment receivables showed the greatest rise, from $460,027,358 to $649,982,667. Collection experience improved substantially, the company crediting good economic conditions. However, the experience in the last quarter was not as favorable as in the first nine months of the year.

Heavy early production of 1956 models boosted the number of cars in dealer inventories at yearend, and Associates' wholesale financing of these inventories rose to a new high of $81,398,810 outstanding at December 31. This amount is not unusual in view of the rapid turnover of the wholesale receivables on company's books. These receivables probably will rise still more as the spring market approaches, according to the president of the company, but Associates believes that with careful planning on the part of all concerned there should again be an orderly liquidation.

Despite the prospect of a lower demand for automobile installment paper, the company is looking forward to another excellent year.

Dividends in 1955 totaled $2 per share, and the present quarterly dividend is 60 cents per share. At 60, the current price of the issue, dividends of $2.40 per annum yield a return of 4%.

—END